

ANNUAL AUDIT REPORT
ON THE
TOLEDO CITY WATER DISTRICT

Toledo City, Cebu

For Calendar Year 2019

EXECUTIVE SUMMARY

A. INTRODUCTION

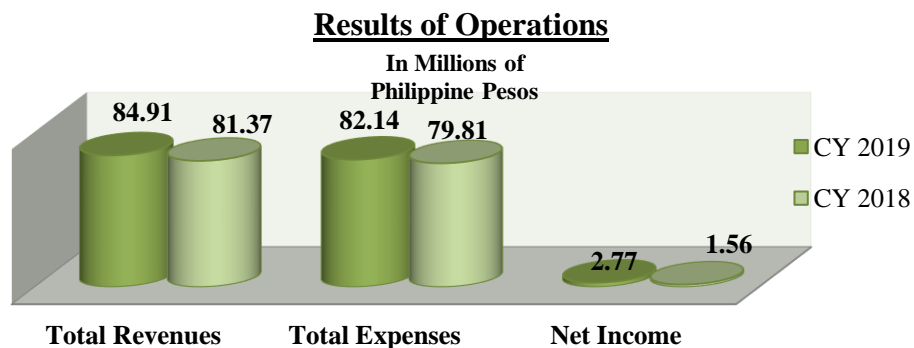
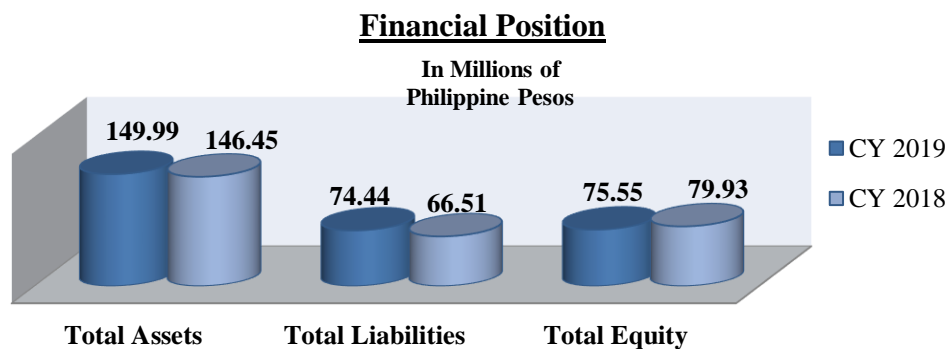
Toledo City Water District (TCWD) is a government-owned and controlled corporation created and existing by virtue of Presidential Decree No. 198, as amended. A Certificate of Conformance No. 195, was issued by the Local Water Utilities Administration (LWUA) to TCWD on September 30, 2004 validating its operations as one of the water districts of the country. In March 2012, pursuant to the Revised Local Water District (LWD) Manual on Categorization, Re-Categorization and Other Related Matters, LWUA has categorized Toledo City Water District as Category “B”.

The administration of the Water District and the exercise of its corporate powers are vested exclusively with the Board of Directors and the General Manager as authorized by the Board.

As of December 31, 2019, the Water District had a total workforce of 83 employees composed of 76 regular employees and 7 contract of service workers. Presently, the Water District is headed by Mr. Edgardo N. Nicolas, who assumed office as new General Manager effective January 16, 2020.

B. FINANCIAL HIGHLIGHTS

Below is a comparative presentation of the financial conditions and results of operations of the Water District for the Calendar Years 2018-2019:



The Corporate Operating Budget for CY 2019 aggregating ₱131,936,064.08 was approved through Board Resolution No. 69-2018 on December 17, 2018.

C. OPERATIONAL HIGHLIGHTS

The following were among the reported accomplishments of the Water District for the year as compared with that of the same period last year, as furnished to the Audit Team:

Category	CY 2019	CY 2018	Increase
Service Connections			
Total Services	16,205	15,826	379
Total Active	14,936	14,722	214
Total Metered	14,936	14,722	214
Total Concessionaires	74,680	73,610	1,070
Water Production			
Pumped	4,438,705 m ³	4,704,064 m ³	265,359 m ³
Purchased Water	881,019 m ³	701,264 m ³	179,755 m ³

D. SCOPE OF AUDIT

The audit covered the financial transactions of TCWD for Calendar Year 2019. The objectives of the audit were primarily to: (a) ascertain the level of assurance that may be placed on management assertions on the financial statements; (b) review on a test basis, the propriety of disbursements and other financial transactions to determine adherence to pertinent laws, rules and regulations and recommend agency improvement opportunities thereon; and (c) determine the extent of implementation of prior years’ audit recommendations.

E. AUDITOR’S REPORT

The auditor expressed a qualified opinion on the financial statements of the Toledo City Water District due to the audit exceptions as stated in the Independent Auditor’s Report, enumerated as follows:

1. The recorded balance of the Property, Plant and Equipment (PPE) account as at December 31, 2019 aggregating ₱184.71 million cannot be relied upon because properties totaling ₱26.31 million, which were turned over by the City of Toledo to TCWD, were still carried in the PPE account even if these could no longer be located, hence overstating the PPE account;
2. The results of the physical count of Inventories showed shortages aggregating ₱1.865 million or 28.52% of the year-end balance of Inventories Account totaling ₱6.541 million which resulted in the misstatement of the Inventories account by ₱1.865 million.

3. The Construction in Progress (CIP) account totaling ₱1.247 million as at December 31, 2019 was composed of supplies and materials intended for projects which were discontinued by TCWD due to lack of permits/clearances. This circumstance is contrary to paragraph 15 of PAS 1 and COA Circular No. 2015-010, thereby misstating the CIP account by the same amount.
4. The Accounts Receivable–Local Government Unit account, a subsidiary of the Accounts Receivable account, was not assessed whether there is any indication that the recognized impairment loss in previous years still exist or may have decreased as required in Philippine Accounting Standards (PAS) 39. This condition resulted in the overstatement of the Allowance for Impairment and the understatement of the Reversal of Impairment Loss accounts for ₱0.760 million as at year-end.

F. OTHER SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

In addition to the above, the following were among the significant findings, with the corresponding audit recommendations, which are discussed in detail in Part II of the herein report:

1. The Water District could have generated additional revenue of ₱0.614 million in CY 2019, had the applicable rate been applied to Balamban Water District's (BWD) bulk water supply service connection.

We recommended and Management agreed to secure approval from LWUA on the grant of a special water rate to BWD. We also recommended that henceforth, Management ensure that LWUA's approval is obtain prior to the grant of water rates which are not in accordance with the LWUA approved rates.

2. The Guaranty/Security Deposits Payable account included bidder's bond aggregating ₱0.143 million as at year-end, which were not claimed by the suppliers, notwithstanding the fulfillment of the purpose of the bond. This condition contributed to the accumulation of balances of the payable account which has been outstanding for more than two years.

We recommended and Management agreed to inform the concerned suppliers for the refund of their security deposits, only if the purpose of the bond has already been performed/fulfilled. We further recommended and Management agreed to require the Accounting Unit to update the Subsidiary Ledgers, incorporating therein the details of the security deposits, to facilitate in monitoring the Water District's liabilities to various suppliers/bidders.

3. The formulation/preparation of the Water Safety Plan (WSP) was not completed as at December 31, 2019, thus the Water District failed to implement

and to submit its WSP to the Department of Health (DOH) through the Local Utilities Administration (LWUA) as required under DOH Administrative Order No. 2014-0027 dated September 4, 2014 and LWUA Memorandum Circular No. 010.14 dated December 1, 2014.

We recommended that Management take appropriate action, if possible, coordinate with LWUA, in order to hasten the formulation of the required Water Safety Plan as it serves as a tool for the Water District to immediately address the various risks associated with water contamination at the different points of the water system. We reiterated our audit recommendation for Management to submit the WSP to the DOH through LWUA.

4. The percentage of Non-Revenue Water (NRW) for CY 2019 was 32 percent of the total water production or 6.67 percent higher than the maximum acceptable rate of 30 percent as set under the Local Water Utilities Administration (LWUA) Memorandum Circular No. 011-18.

We recommended that Management continue to implement additional preventive measures to eventually reduce the NRW rate to the acceptable maximum level of 30 percent or even lower, and accordingly prevent further revenue losses.

5. Disbursements intended for the Contract of Service (COS) workers' government's counterpart of PhilHealth contributions totaling ₱13,283.92 and Service Recognition Incentive (SRI) aggregating ₱108,000.00 in CY 2019 are contrary to Paragraph 3, Section 8.0 of CSC-COA-DBM Joint Circular No. 1, s. 2017 and Section 5.4 of DBM Budget Circular No. 2019-6. Thus, the disbursements have no legal basis since the Water District and the COS workers do not have employer-employee relationship.

We recommended and Management agreed to instruct the Accounting Unit to stop the payment of employer's share for the Contract of Service (COS) workers' PhilHealth contributions. Furthermore, we recommended that Management require the immediate refund of the Service Recognition Incentive paid to the COS workers and also the portion of the Water District's counterpart of the contributions already remitted to PhilHealth

G. IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

We followed up the actions taken by Management on the implementation of the 23 prior years' audit recommendations and noted that nine were fully implemented, six were partially implemented and eight were not implemented as at December 31, 2019.

H. GENDER AND DEVELOPMENT

The budget allocation for Gender and Development (GAD) programs, projects and activities for CY 2019 was ₱24,329,000.00 or about 18.44 percent of the total budget of ₱131,936,064.08. However, the utilization of the GAD budget was only 5.73 percent or a total of ₱1,393,314.61 due to the delay in the release of the LWUA loan of ₱25 million. The GAD related activities for CY 2019 were being mainstreamed in the projects to be funded by the said LWUA loan.

I. COMPLIANCE WITH TAX LAWS

The regulations of the Bureau of Internal Revenue (BIR) on the withholding of required taxes were substantially complied with by TCWD. The withheld taxes were remitted regularly to the BIR along with the franchise tax due from TCWD as seller of water. The details of the taxes remitted to the BIR during the year are presented in Part II of the herein report.

J. GSIS DEDUCTIONS AND REMITTANCES

TCWD has consistently deducted from the salaries of their employees the mandatory GSIS Life and Retirement insurance premiums (personal share) and loan payments. These deductions and the government share of the employees' insurance premiums were remitted to the GSIS on time.

K. ON UNSETTLED AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

Particulars	Balance 12.31.2018	Issued and Settled During the Year 2019		Balance 12.31.2019
		Issued	Settled	
Suspensions	₱ 127,216.25	0.00	0.00	₱ 127,216.25
Disallowances	2,893,345.86	0.00	0.00	2,893,345.86
Charges	0.00	0.00	0.00	0.00
Total	₱ 3,020,562.11	0.00	0.00	₱ 3,020,562.11



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

Toledo City Water District
Toledo City, Cebu

Qualified Opinion

We have audited the financial statements of the Toledo City Water District (TCWD), which comprise the Statement of Financial Position as at December 31, 2019, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters discussed in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the TCWD as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Qualified Opinion

In forming our audit opinion, we considered the following audit observations which are discussed in detail in Part II of the herein report:

1. The recorded balance of the Property, Plant and Equipment (PPE) account as at December 31, 2019 aggregating ₱184.71 million cannot be relied upon because properties totaling ₱26.31 million, which were turned over by the City of Toledo to TCWD, were still carried in the PPE account even if these could no longer be located, hence overstating the PPE account;
2. The results of the physical count of Inventories showed shortages aggregating ₱1.865 million or 28.52% of the year-end balance of Inventories Account totaling ₱6.541 million which resulted in the misstatement of the Inventories account by ₱1.865 million;
3. The Construction in Progress (CIP) account totaling ₱1.247 million as at December 31, 2019 was composed of supplies and materials intended for projects which were discontinued by TCWD due to lack of permits/clearances. This circumstance is contrary to paragraph 15 of PAS 1 and COA Circular No. 2015-010, thereby misstating the CIP account by the same amount.

4. The Accounts Receivable–Local Government Unit account, a subsidiary of the Accounts Receivable account, was not assessed whether there is any indication that the recognized impairment loss in previous years still existed or may have decreased as required in Philippine Accounting Standards (PAS) 39. This condition resulted in the overstatement of the Allowance for Impairment and the understatement of the Reversal of Impairment Loss accounts for ₱0.760 million as at year-end.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Agency in accordance with the Revised Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Except for the matters described in the *Basis for Qualified Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

Responsibilities of Management and Those Charged with Governance of the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Water District’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud, may involve collusion, forgery, intentional omissions, misrepresentations, or other override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the TCWD's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the TCWD's ability to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit observations, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

COMMISSION ON AUDIT

By:



JENNY D. DAYOLA
OIC-Supervising Auditor

April 27, 2020



TOLEDO CITY WATER DISTRICT


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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **TOLEDO CITY WATER DISTRICT** is responsible for the preparation of the financial statements as of **December 31, 2019**, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material statement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.


The Board of Directors reviews and approves the financial statements before such statements are issued to the regulators, creditors and other users.

The Commission on Audit has audited the financial statements of **Toledo City Water District** in accordance with the Philippine Financial Reporting Standards (PFRS) and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.


OSCAR A. REYES
Chairman of the Board
Feb. 27, 2020
Date Signed


Delina L. Delos Reyes
Finance & Commercial Services
Department Manager

Date Signed


Edgardo G. Nicolas
General Manager

27 Feb 2020
Date Signed

**TOLEDO CITY WATER DISTRICT
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019**

(With Comparative Figures For The Year Ended December 31, 2018)

	Note	2019	2018
ASSETS			
<u>Current Assets</u>			
Cash and Cash Equivalents	3 & 4	₱ 2,718,351.16	₱ 5,381,689.33
Receivables	3 & 5	13,635,566.85	14,682,010.76
Inventories	3 & 6	6,540,694.96	7,081,136.09
Other Current Assets	8	4,968,950.36	363,563.60
Total Current Assets		27,863,563.33	27,508,399.78
<u>Non-Current Assets</u>			
Property, Plant and Equipment, Net	3 & 7	122,126,429.56	118,938,749.26
Other Non-Current Assets	8	-	-
Total Non-Current Assets		122,126,429.56	118,938,749.26
TOTAL ASSETS		₱ 149,989,992.89	₱ 146,447,149.04
LIABILITIES AND EQUITY			
LIABILITIES			
<u>Current Liabilities</u>			
Financial Liabilities	9	₱ 15,014,936.07	₱ 11,912,886.72
Inter-Agency Payables	10	1,540,643.27	1,403,015.05
Trust Liabilities	11	236,630.52	198,221.74
Provisions	12	3,365,229.02	2,735,644.51
Other Payables	13	1,298,022.86	2,607,583.57
Total Current Liabilities		21,455,461.74	18,857,351.59
<u>Non-Current Liabilities</u>			
Financial Liabilities	9	52,985,317.87	47,656,967.52
Total Non-Current Liabilities		52,985,317.87	47,656,967.52
TOTAL LIABILITIES		74,440,779.61	66,514,319.11
EQUITY			
Government Equity		67,574,453.58	67,574,453.58
Retained Earnings/(Deficit)		7,974,759.70	12,358,376.35
TOTAL EQUITY		75,549,213.28	79,932,829.93
TOTAL LIABILITIES AND EQUITY		₱ 149,989,992.89	₱ 146,447,149.04

See accompanying Notes to Financial Statements.

TOLEDO CITY WATER DISTRICT
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019
(With Comparative Figures For The Year Ended December 31, 2018)

	Note	2019	2018
INCOME			
Service and Business Income	14	₱ 84,909,488.21	₱ 81,229,468.03
Shares, Grant and Donations		-	142,500.00
Total Income		84,909,488.21	81,371,968.03
EXPENSES			
Personnel Services	15	33,324,471.50	36,703,849.26
Maintenance and Other Operating Expenses	16	35,757,619.28	31,308,523.06
Financial Expenses	17	4,302,442.00	4,012,001.00
Non-Cash Expenses	18	8,751,997.43	7,785,767.14
Total Expenses		82,136,530.21	79,810,140.46
NET INCOME/(LOSS)		₱ 2,772,958.00	₱ 1,561,827.57

See accompanying Notes to Financial Statements.

TOLEDO CITY WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(With Comparative Figures For The Year Ended December 31, 2018)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflows			
Collection of Income/Revenue	P	1,154,344.43	P 1,569,096.40
Collection of Receivables		84,434,336.15	80,383,488.59
Receipt of Inter-Agency Fund Transfers		1,149,130.78	968,588.08
Receipt of Intra-Agency Fund Transfers		546,406.73	1,200,928.04
Trust Receipts		53,512.50	40,762.71
Other Receipts		761,220.88	292,749.19
Total Cash Inflows		88,098,951.47	84,455,613.01
Adjustments		8,466,912.06	2,555,429.68
Adjusted Cash Inflows		96,565,863.53	87,011,042.69
Cash Outflows			
Payment of Expenses		19,657,115.31	17,322,752.43
Purchase of Inventories		-	-
Grant of Cash Advances		6,061,177.97	4,367,399.03
Prepayments		760,706.45	715,007.09
Payment of Accounts Payable		26,579,167.83	31,987,627.87
Remittance of Personnel Benefit Contributions and Mandatory Deductions		24,791,712.70	24,142,203.30
Release of Inter-Agency Fund Transfers		-	-
Release of Intra-Agency Fund Transfers		5,150,071.33	1,200,928.04
Other Disbursements		658,192.97	477,712.09
Total Cash Outflows		83,658,144.56	80,213,629.85
Adjustments		8,649,795.14	-
Adjusted Cash Outflows		92,307,939.70	80,213,629.85
Net Cash Provided by (Used in) Operating Activities		4,257,923.83	6,797,412.84
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Outflows			
Purchase/Construction of Property, Plant and Equipment		3,080.00	987,142.50
Total Cash Outflows		3,080.00	987,142.50
Net Cash Provided by (Used in) Investing Activities		(3,080.00)	(987,142.50)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Outflows			
Payment of Long-Term Liabilities		2,565,088.55	1,346,454.00
Payment of Interest on Loans and Other Financial Charges		4,353,093.45	4,107,341.00
Total Cash Outflows		6,918,182.00	5,453,795.00
Net Cash Provided by (Used in) Financing Activities		(6,918,182.00)	(5,453,795.00)
Cash Provided by Operating, Investing and Financing Activities		(2,663,338.17)	356,475.34
Add: Cash and Cash Equivalents, January 1		5,381,689.33	5,025,213.99
CASH AND CASH EQUIVALENTS, DECEMBER 31	4	P 2,718,351.16	P 5,381,689.33

See accompanying Notes to Financial Statements.

TOLEDO CITY WATER DISTRICT
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019
(With Comparative Figures For The Year Ended December 31, 2018)

	Retained Earnings/ (Deficit)	Contributed Capital	Government Equity	TOTAL
Balance at January 1, 2018	₱ 13,688,574.33	₱ -	₱ 67,574,453.58	₱ 81,263,027.91
Changes in Equity for the CY 2018				-
Add/(Deduct):				-
Net Income/(Loss) for the year	1,561,827.57			1,561,827.57
Changes in Accounting Policy	(2,314,719.07)			(2,314,719.07)
Prior Period Errors	53,853.94			53,853.94
Other Adjustments	(631,160.42)	-		(631,160.42)
Balance at December 31, 2018	12,358,376.35	-	67,574,453.58	79,932,829.93
Changes in Equity for the CY 2019				
Add/(Deduct):				
Net Income/(Loss) for the year	2,772,958.00			2,772,958.00
Changes in Accounting Policy	-			-
Prior Period Errors	57,939.13			57,939.13
Other Adjustments	(7,214,513.78)			(7,214,513.78)
Balance at December 31, 2019	₱ 7,974,759.70	₱ -	₱ 67,574,453.58	₱ 75,549,213.28

**TOLEDO CITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2019**

1. GENERAL INFORMATION

The financial statement of Toledo City Water District (TCWD) was authorized for issue on January 31, 2020 as shown in the Statement of Management's Responsibility for Financial Statements signed by Oscar A. Reyes, Chairman of the Board of Directors.

TCWD is a Government Owned & Controlled Corporation created on September 15, 1980 by virtue of the Toledo City Sangguniang Panlungsod Resolution No.54 pursuant to the provisions of Presidential Decree No. 198, as amended. The Local Water Utilities Administration (LWUA) issued to TCWD a Certificate of Conformance No.195 on April 20, 1982 validating the entity as one of the water districts of the country. However, the newly established water system was not able to operate as a Water District after its creation for unknown reasons, and continued to operate under the management of the Toledo City Waterworks of the Local Government.

On October 15, 2001 the TCWD was reactivated through Sangguniang Panlungsod Resolution No. 2001-80. Simultaneously, all the existing water system's facilities, installations and obligations integral to the waterworks operation were transferred to TCWD. The Water District took over full operation of the defunct Toledo Waterworks System on April 2, 2002.

On March 2012, pursuant to the Revised Local Water District Manual on Categorization, Re-Categorization and Other Related Matters, LWUA categorized TCWD as Category "B".

Currently, TCWD provides potable water supply system to 14,936 active service connections both residential and commercial establishments in Toledo City and covers twenty-one (21) component barangays. TCWD office is located in Right Wing Terminal Building, Baybay 1, Poblacion, Toledo City, Cebu.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements of TCWD have been prepared in compliance with the International Financial Reporting Standards (IFRS) prescribed by the Commission

on Audit (COA) through COA Circular No. 2015-003 dated April 16, 2015 and COA Circular No. 2015-010 dated December 1, 2015.

The accounting policies have been consistently applied throughout the year presented.

The financial statements of TCWD have been prepared on the basis of historical cost, unless stated otherwise. The Statement of Cash Flows is prepared using the direct method.

The financial statements are presented in peso (₱), which is also the country's functional currency.

The preparation of the financial statements in compliance with the adopted PFRS requires the use of certain accounting estimates. It also requires entity to exercise judgment in applying the entity's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effects are disclosed in Notes to Financial Statements.

PAS 1, Presentation of Financial Statements, provides framework of financial statements presentation. It requires more specific statement of financial position line items as applicable to the entity. The standard requires presentation of comparative financial statements and information.

PAS 2, Inventories, Inventories are valued at the lower of cost or net realizable value (NRV). Cost is determined using the moving average method. Per COA Circular No. 2015-010 dated December 1, 2015 (adoption of the Revised Chart of Accounts for GCs), property, plant and equipment with cost below ₱15,000.00 are classified as Semi Expendable Inventory.

PAS 16, Property, Plant and Equipment, provides additional guidelines and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item, property, plant and equipment with a cost that is in significant relation to the total cost of the item shall be depreciated separately. Property, Plant and Equipment with cost of below ₱15,000.00 per COA Circular No. 2015-010 dated December 1, 2015 (adoption of the Revised Chart of Accounts for GCs) are reclassified as Semi-Expendable Equipment.

PAS 19, Employee Benefits, the objective of this standard is to prescribe the accounting and disclosure of employee benefits (that is all forms of consideration given by an entity in exchange of service rendered by employees). The standard requires an entity to recognize a liability when an employee has provided services in exchange for employee benefits to be paid in the future; and an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

PAS 36, Impairment of Assets, provides that an asset is impaired when its carrying amount exceeds its recoverable amount. Indications of impairments are the following: obsolescence or physical damage; asset is held for disposal and there is evidence that the economic performance of an asset is, or will be, worse than expected.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 *Basis of Accounting*

The Water District's financial statements are prepared on an accrual basis in accordance with the PFRS.

3.2 *Cash and Cash Equivalents*

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash with original maturities of three months or less from date of acquisition and that are subject to an insignificant risk of change in value.

3.3 *Receivable*

Receivables are recognized and carried at original billed amount. Allowance for Impairment- Accounts Receivable is set-up in order to serve as back-up for potential losses on receivables.

3.4 *Inventories*

Construction materials and office supplies inventories are valued at costs and inventoried using the moving average method. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the TCWD.

3.5 *Property, Plant and Equipment*

Recognition

An item is recognized as property, plant and equipment (PPE) if it meets the characteristics and recognition criteria as PPE, as follows:

- tangible items;

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

- it is probable that the future economic benefits or service potential associated with the item will flow to the entity;
- the cost or fair value of the item can be measured reliably; and
- the cost is at least ₱15,000.00.

Measurement and Recognition

An item recognized as PPE is measured at cost. A PPE acquired through non-exchange transaction is measured at its fair value as at the date of acquisition.

The cost of the PPE is the cash price equivalent at the recognition date or, for PPE acquired through non cash-exchange transaction its cost is its fair value as at recognition date.

Cost includes the following:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- expenditure that is directly attributable to the bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and;
- initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during the period.

Measurement after Recognition

After recognition, all PPE are stated at cost less accumulated depreciation and impairment losses.

When significant parts of PPE are required to be replaced at intervals, the Water District recognizes such parts as individual assets with specific useful

lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized as expense in the statement of comprehensive income as incurred.

Depreciation

Depreciation is a method of allocating the cost of a tangible asset over its estimated useful life. Each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

Initial Recognition of Depreciation

Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management.

For simplicity and to avoid proportionate computation, the depreciation is for one month.

Depreciation Method

The straight-line method of depreciation is adopted unless another method is more appropriate for agency operation. The residual value of the PPE is deducted in computing for its depreciation.

Estimated Useful Life

TCWD uses the life span of PPE prescribed by COA in determining the specific estimated useful life for each asset based on its experienced.

TCWD uses a residual value equivalent to at least five percent (5%) of the cost of the PPE.

Derecognition

TCWD derecognizes items of property, plant and equipment and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is

included in the statement of comprehensive income when the asset is derecognized.

3.6 Provisions, Contingent Liabilities and Contingent Assets

a. Provisions

Provisions are recognized when TCWD has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where TCWD expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Provisions are reviewed at each reporting date, and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provisions are reversed.

b. Contingent liabilities

TCWD does not recognize a contingent liability, but discloses details of any contingencies in the notes to financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

c. Contingent assets

TCWD does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of TCWD in the notes to financial statements.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

3.7 *Changes in Accounting Policies and Estimates*

TCWD recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

TCWD recognizes the effects of changes in accounting estimates prospectively through surplus or deficit.

TCWD corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

- a. Restating the comparative amounts for prior period(s) presented in which the error occurred; or
- b. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

3.8 *Revenue from Exchange Transactions*

a. Measurement of revenue

Revenue is measured at the fair value of the consideration received or receivable.

b. Rendering of services

TCWD recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

c. Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to TCWD.

3.9 *Budget Information*

The annual budget is prepared on a cash basis and is published in the government website. The Budget Utilization Report has also been prepared by the Water District.

3.10 *Borrowing Costs*

For loans borrowed directly by TCWD, the allowed alternative treatment is used.

3.11 *Employee Benefits*

The employees of TCWD are members of the Government Service Insurance System (GSIS), which provides life and retirement insurance coverage.

TCWD recognizes the undiscounted amount of short-term employee benefits, like salaries, wages, bonuses, allowance, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

3.12 *Measurement Uncertainty*

The preparation of financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenue and expenses during the period. Items requiring the use of significant estimates include useful life of a capital asset, rates for amortization and impairment of assets.

4. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2019	2018
Cash on Hand	₱ 300,888.51	₱ 238,512.20
Cash in Bank	2,417,462.65	5,143,177.13
Total	₱ 2,718,351.16	₱ 5,381,689.33

5. RECEIVABLES

5.1 Accounts Receivable and Other Receivables

This account consists of the following:

	2019	2018
Accounts Receivable	₱ 25,868,293.64	₱ 29,294,177.35
<i>Allowance for Impairment – Accounts Receivable</i>	<i>(16,824,352.69)</i>	<i>(16,711,124.20)</i>
<i>Net Value – A/R</i>	₱ 9,043,940.95	₱ 12,583,053.15
Other Receivables:		
Receivable –	1,131,799.20	1,493,049.20
Due from Officers and Employees	0.00	0.00
Due from NGO/People’s	44,605.43	115,266.59
Other Receivables	3,615,142.01	690,562.56
<i>Allowance for Impairment – Other Receivables</i>	<i>(199,920.74)</i>	<i>(199,920.74)</i>
Total Other Receivables	4,591,625.90	2,098,957.61
Total Receivables, net	₱ 13,635,566.85	₱ 14,682,010.76

5.2 Aging/Analysis of Receivables

As at December 31, 2019

	Total	<90 days	<91 days to 1 year	Past Due Over 1 year to 2 year	Over 2 years
Accounts Receivable	₱ 25,868,293.64	2,459,332.09	117,296.68	552,953.34	22,738,711.53

6. INVENTORIES

This account consists of:

	2019	2018
Inventory Held for Consumption		
Beginning Balance	₱ 7,081,136.09	₱ 7,027,767.95
Additions/ Acquisitions during the year	2,518,165.74	4,994,757.92
Expensed during the year except write- down	<i>(3,058,606.87)</i>	<i>(4,941,389.78)</i>
Total	₱ 6,540,694.96	₱ 7,081,136.09

7. PROPERTY, PLANT, AND EQUIPMENT

This account comprises of the following:

	Land	Infrastructure Assets	Building and Other Structures	Machinery and Equipment	Land Transport Equipment	Furnitures and Fixtures	Other Property Plant & Equipment	Construction in Progress	Total
As at December 31, 2019									
Carrying Amount, January 1, 2019	₱ 1,831,216.00	₱ 93,251,180.00	₱ 18,222,584.00	₱ 2,828,259.66	₱ 1,444,203.80	₱ 75,938.83	₱ 0.00	₱ 1,285,366.97	₱ 118,938,749.26
Additions	0.00	2,815,631.22	0.00	464,392.77	66,921.00	0.00	0.00	0.00	3,346,944.99
Total	1,831,216.00	96,066,811.22	18,222,584.00	3,292,652.43	1,511,124.80	75,938.83	0.00	1,285,366.97	122,285,694.25
Cost of Completed Projects	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(38,813.10)	(38,813.10)
Reclass./Adjustments:									
Cost Accumulated Depreciation	0.00	8,350,087.36	0.00	16,930.00	0.00	0.00	0.00	0.00	8,367,017.36
Depreciation (As per Statement of Comprehensive Income)	0.00	147,554.62	0.00	1,966.52	0.00	1,778.85	0.00	0.00	151,299.99
	0.00	(7,223,749.36)	(534,944.04)	(630,426.90)	(244,258.72)	(5,389.92)	0.00	0.00	(8,638,768.94)
Carrying Amount, December 31, 2019 (As per Statement of Financial Position)	1,831,216.00	97,340,703.84	17,687,639.96	2,681,122.05	1,266,866.08	72,327.76	0.00	1,246,553.87	122,126,429.56
Gross Cost (Asset Account Balance per Statement of Financial Position)	1,831,216.00	140,357,512.79	26,792,018.92	9,040,757.84	4,972,504.13	464,983.00	0.00	1,246,553.87	184,705,546.55
Accumulated Depreciation	0.00	(43,016,808.95)	(9,104,378.96)	(6,359,635.79)	(3,705,638.05)	(392,655.24)	0.00	0.00	(62,579,116.99)
Carrying Amount, December 31, 2019 (As per Statement of Financial Position)	₱ 1,831,216.00	₱ 97,340,703.84	₱ 17,687,639.96	₱ 2,681,122.05	₱ 1,266,866.08	₱ 72,327.76	₱ 0.00	₱ 1,246,553.87	₱ 122,126,429.56

	Land	Infrastructure Assets	Building and Other Structures	Machinery and Equipment	Land Transport Equipment	Furnitures and Fixtures	Other Property Plant & Equipment	Construction in Progress	Total
As at December 31, 2018									
Carrying Amount, January 1, 2018	₱ 1,831,216.00	₱ 82,316,222.92	₱ 18,476,644.69	₱ 3,162,228.13	₱ 1,720,275.53	₱ 81,328.75	₱ 1,737,838.46	₱ 2,487,895.32	₱ 111,813,649.80
Additions	0.00	321,351.16	0.00	255,415.00	0.00	0.00	0.00	2,056,524.80	2,633,290.96
Total	1,831,216.00	82,637,574.08	18,476,644.69	3,417,643.13	1,720,275.53	81,328.75	1,737,838.46	4,544,420.12	114,446,940.76
Cost of Completed Projects	0.00	2,579,164.50	275,068.30	0.00	0.00	0.00	0.00	(2,854,232.80)	0.00
Reclass./Adjustments:									
Cost	0.00	16,234,866.85	0.00	(103,938.11)	16,800.00	0.00	(3,589,273.70)	(404,820.35)	12,153,634.69
Accumulated Depreciation	0.00	(2,047,501.09)	0.00	196,065.85	0.00	0.00	1,851,435.24	0.00	0.00
Depreciation (As per Statement of Comprehensive Income)	0.00	(6,152,924.34)	(529,128.99)	(681,511.21)	(292,871.73)	(5,389.92)	0.00	0.00	(7,661,826.19)
Carrying Amount, December 31, 2018 (As per Statement of Financial Position)	1,831,216.00	93,251,180.00	18,222,584.00	2,828,259.66	1,444,203.80	75,938.83	0.00	1,285,366.97	118,938,749.26
Gross Cost (Asset Account Balance per Statement of Financial Position)	1,831,216.00	129,191,794.21	26,792,018.92	8,559,435.07	4,905,583.13	464,983.00	0.00	1,285,366.97	173,030,397.30
Accumulated Depreciation	0.00	(35,940,614.21)	(8,569,434.92)	(5,731,175.41)	(3,461,379.33)	(389,044.17)	0.00	0.00	(54,091,648.04)
Carrying Amount, December 31, 2018 (As per Statement of Financial Position)	₱ 1,831,216.00	₱ 93,251,180.00	₱ 18,222,584.00	₱ 2,828,259.66	₱ 1,444,203.80	₱ 75,938.83	₱ 0.00	₱ 1,285,366.97	₱ 118,938,749.26

8. OTHER CURRENT ASSETS

This account consists of the following:

	2019	2018
Advances to Officers & Employees	₱ 160,420.00	₱ 6,000.00
Prepayments	10,620.00	164,865.00
Deposits	151,698.60	151,698.60
Restricted Funds	4,646,211.76	0.00
Other Assets	0.00	41,000.00
Total Other Assets	₱ 4,968,950.36	₱ 363,563.60

9. FINANCIAL LIABILITIES

This account consists of the following:

	2019	2018
<i>Payables</i>		
Accounts Payable	₱ 12,800,472.55	₱ 10,475,254.45
Due to Officers & Employees	181,807.52	156,384.27
<i>Bills/Bonds/Loans Payable</i>		
Loans Payable - Domestic	2,032,656.00	1,281,248.00
Total Financial Liabilities - Current	15,014,936.07	11,912,886.72
<i>Bills/Bonds/Loans Payable</i>		
Loans Payable - Domestic	52,985,317.87	47,656,967.52
Total Financial Liabilities - Non-Current	52,985,317.87	47,656,967.52
Total Financial Liabilities	₱ 68,000,253.94	₱ 59,569,854.24

10. INTER-AGENCY PAYABLES

These are the composition of this account:

	2019	2018
Due to BIR	₱ 605,556.59	₱ 665,430.08
Due to GSIS	822,687.24	600,549.49
Due to Pag-IBIG	44,736.45	47,804.38
Due to PhilHealth	43,353.57	43,808.03
Due to Gov't. Corporations	24,309.42	45,423.07
Inter-Agency Payables	₱ 1,540,643.27	₱ 1,403,015.05

11. TRUST LIABILITIES

This account consists of the following:

	2019	2018
Guaranty/Security Deposits Payable	₱ 143,223.71	₱ 108,814.93
Customer Deposits Payable	93,406.81	89,406.81
Total Trust Liabilities	₱ 236,630.52	₱ 198,221.74

12. PROVISIONS

This account consists of the following:

	2019	2018
Leave Benefits Payable	₱ 3,365,229.02	₱ 2,735,644.51
Total	₱ 3,365,229.02	₱ 2,735,644.51

13. OTHER PAYABLES

This account consists of the following:

	2019	2018
Other Payables	₱ 1,298,022.86	₱ 2,607,583.57
Total	₱ 1,298,022.86	₱ 2,607,583.57

14. INCOME

These are the composition of this account:

	2019	2018
Service and Business Income		
Waterworks System Fees	₱ 80,787,487.42	₱ 77,236,871.84
<i>Sales Discounts</i>	(5,030.38)	(4,902.33)
Interest Income	7,109.09	5,404.77
Fines and Penalties – Business Income	2,708,155.33	2,534,998.44
Other Business Income	1,411,766.75	1,457,095.31
Total Service and Business Income	84,909,488.21	81,229,468.03
Shares, Grants and Donations		

	2019	2018
Income from Grants and Donations in Kind	₱ 0.00	₱ 142,500.00
Total Shares, Grants and Donations	0.00	142,500.00
Total Income	₱ 84,909,488.21	₱ 81,371,968.03

15. **PERSONNEL SERVICES**

Comprising this account are the following:

	2019	2018
Salaries and Wages		
Salaries and Wages-Regular	₱ 19,186,128.02	₱ 19,440,495.48
Salaries and Wages-Casual/Contractual	0.00	1,348,599.78
Total Salaries and Wages	19,186,128.02	20,789,095.26
Other Compensation		
Personnel Economic Relief Allowance (PERA)	1,788,000.00	1,827,000.00
Year End/Mid Year Bonus	1,707,330.00	1,712,527.00
Honoraria	0.00	822,288.00
Overtime and Night Pay	299,492.19	300,149.08
Representation Allowance (RA)	609,500.00	599,000.00
Transportation Allowance (TA)	609,500.00	599,000.00
Clothing/Uniform Allowance	444,000.00	461,000.00
Cash Gift	372,500.00	380,000.00
Other Bonuses and Allowances	2,940,752.00	2,439,702.00
Total Other Compensation	8,771,074.19	9,140,666.08
Personnel Benefits Contributions		
Retirement and Life Insurance Premium	2,444,135.28	2,449,567.77
PhilHealth Contributions	242,315.40	261,868.75
Pag-IBIG Contributions	89,000.00	91,400.00
Employees Compensation Insurance Premium	89,100.00	91,399.81
Provident/Welfare Fund Contributions	0.00	1,184,065.50
Total Personnel Benefits Contributions	2,864,550.68	4,078,301.83
Other Personnel Benefits		
Terminal Leave Benefits	2,502,718.61	2,695,786.09
Total Other Personnel Benefits	2,502,718.61	2,695,786.09
Total Personnel Services	₱ 33,324,471.50	₱ 36,703,849.26

16. MAINTENANCE AND OTHER OPERATING EXPENSES

This account is composed of the following expenses:

	2019	2018
Total Traveling Expenses	₱ 400,258.67	₱ 345,873.94
Total Training and Scholarship Expenses	228,017.69	262,192.53
Supplies and Materials Expenses		
Office Supplies Expenses	285,993.62	442,010.47
Medical, Dental and Laboratory Supplies Expenses	3,440.00	0.00
Fuel, Oil and Lubricants Expenses	657,182.28	773,322.49
Chemical & Filtering Supplies Expenses	974,247.00	711,213.21
Other Supplies & Materials Expenses	19,442.44	19,592.70
Total Supplies and Materials Expenses	1,940,305.34	1,946,138.87
Utility Expenses		
Water Expenses	26,014.00	29,851.60
Electricity Expenses	502,614.94	534,763.88
Total Utility Expenses	528,628.94	564,615.48
Communication Expenses		
Postage and Courier Services	5,852.00	5,023.00
Telephone Expenses	316,683.50	457,048.81
Internet Subscription Expenses	25,210.00	22,395.00
Total Communication Expenses	347,745.50	484,466.81
Total Awards/Rewards, Prizes and Indemnities	10,149.00	0.00
Survey, Research, Exploration and Development Expenses		
Survey Expenses	0.00	116,021.60
Total Survey, Research, Exploration and Development Expenses	0.00	116,021.60
Total Generation, Transmission and Distribution Expenses	22,820,440.61	20,272,403.69
Total Extraordinary and Miscellaneous Expenses	519,611.17	331,192.76
Professional Services		
Legal Services	165,000.00	180,000.00
Auditing Services	0.00	149,668.20
Other Professional Services	102,380.80	132,596.40
Total Professional Services	267,380.80	462,264.60
General Services		
Security Services	702,600.00	719,100.00
Total General Services	702,600.00	719,100.00
Repairs and Maintenance		
Repairs and Maintenance-Infrastructure	1,823,938.64	1,978,388.32

	2019	2018
Assets		
Repairs and Maintenance-Machinery and Equipment	156,734.70	155,886.91
Repairs and Maintenance-Building and Other Structures	13,490.00	12,600.00
Repairs and Maintenance-Transportation Equipment	235,848.68	125,414.90
Repairs and Maintenance-Furnitures & Fixtures	4,354.00	8,059.90
Total Repairs and Maintenance	2,234,366.02	2,280,350.03
Taxes, Insurance Premiums and Other Fees		
Taxes, Duties and Licenses	1,772,486.33	1,629,753.44
Fidelity Bond Premiums	33,851.25	0.00
Insurance Expense	152,121.39	84,562.65
Total Taxes, Insurance Premiums & Other Fees	1,958,458.97	1,714,316.09
Labor and Wages		
Labor and Wages	1,087,426.30	0.00
Total Labor and Wages	1,087,426.30	0.00
Total Members' Benefits	12,796.70	0.00
Other Maintenance and Operating Expenses		
Advertising, Promotional and Marketing Expenses	0.00	11,695.00
Printing and Publication Expenses	7,680.00	4,480.00
Representation Expenses	132,137.47	103,704.31
Rent/Lease Expenses	1,615,547.00	1,464,710.40
Membership Dues and Other Contributions to Organizations	3,500.00	4,800.00
Director's and Committee Member's Fee	738,816.00	0.00
Other Maintenance & Operating Expense	201,753.10	220,196.95
Total Other Maintenance and Operating Expenses	2,699,433.57	1,809,586.66
Total Maintenance and Other Operating Expenses	₱ 35,757,619.28	₱ 31,308,523.06

17. FINANCIAL EXPENSES

This account is composed of the following:

	2019	2018
Interest Expenses	₱ 4,276,192.00	₱ 4,008,201.00
Bank Charges	6,250.00	3,800.00
Other Financial Charges	20,000.00	0.00
Total Financial Expenses	₱ 4,302,442.00	₱ 4,012,001.00

18. NON-CASH EXPENSES

This account is composed of the following expenses:

	2019	2018
Depreciation		
Depreciation – Infrastructure Assets	₱ 7,223,749.36	₱ 6,152,924.34
Depreciation – Buildings and Other Structures	534,944.04	529,128.99
Depreciation – Machinery and Equipment	630,426.90	681,511.21
Depreciation – Transportation Equipment	244,258.72	292,871.73
Depreciation – Furniture, Fixtures and Books	5,389.92	5,389.92
Total Depreciation Expense	8,638,768.94	7,661,826.19
Impairment Loss		
Impairment Loss – Receivables	113,228.49	123,940.95
Total Impairment Loss - Receivables	113,228.49	123,940.95
Total Non-Cash Expenses	₱ 8,751,997.43	₱ 7,785,767.14

19. RELATED PARTY TRANSACTIONS

19.1 Key Management Personnel

The key management personnel of TCWD are the General Manager, the Department Managers of the Administrative and Human Resources Services Department, Finance and Commercial Department and Engineering and Operations Department, Division Managers and the members of the governing body. The governing body consists of five members duly appointed by the City Mayor.

19.2 Key Management Personnel Compensation

Particulars	Aggregate Remuneration
Salaries and Wages	₱ 6,406,296.61
Other Compensation	3,425,030.00
Personnel Benefit Contributions	836,376.30
Other Personnel Benefits	776,650.42
Total Other Personnel Benefits	₱ 11,444,353.33

The Board of TCWD who are the policy-making body of the agency, were entitled to per diems for two meetings attended every month in the performance of their functions. Remunerations for General Manager, Department Managers and Division Managers are likewise included in the table above.

PART II OBSERVATIONS AND RECOMMENDATIONS

Financial Audit

1. **The recorded balance of the Property, Plant and Equipment (PPE) account as at December 31, 2019 aggregating ₱184.71 million cannot be relied upon due to the following:**
 - a. **properties totaling ₱26.31 million which were turned over by the City of Toledo at the start of the TCWD's operation, were still carried in the PPE account even if these could not be located, hence overstating the PPE account;**
 - b. **inclusion of items in the PPE account instead of recognizing these tangible items under Repairs and Maintenance and Semi-Expendable accounts, thereby overstating the PPE account by ₱55,992.00, contrary to the provisions of Paragraph 15 of the Philippine Accounting Standards (PAS) 1 and COA Circular No. 2016-006 dated December 29, 2016;**
 - c. **no impairment loss was recognized on certain PPE accounts although indications of impairment existed, thus, the affected PPE accounts are carried at more than their recoverable amount which is contrary to PAS 36;**

Paragraph 15 of the PAS 1 provides for the fair presentation and the required application of International Financial Reporting Standards (IFRS) as follows:

“Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.” (Emphasis supplied)

Review of the PPE account balances as at December 31, 2019 disclosed several deficiencies as discussed in the succeeding paragraphs:

- a. **Properties totaling ₱26.31 million which were turned over by the City of Toledo at the start of TCWD's operation, were still carried in the PPE account although these could no longer be located, hence overstating the PPE account balance as at year-end.**

TCWD reported PPE totaling ₱184,705,546.55 as at December 31, 2019 with composition shown on the next page:

Table 1- PPE Account Balances as at December 31, 2019

PPE Account	Acquisition Cost (in PHP)	Carrying Amount (in PHP)
Land	1,831,216.00	1,831,216.00
Infrastructure Assets (UPIS)	140,357,512.79	97,340,703.84
Buildings & Other Structures	26,792,018.92	17,687,639.96
Machinery & Equipment -	9,040,757.84	2,681,122.05
Transportation Equipment	4,972,504.13	1,266,866.08
Furniture & Fixtures	464,983.00	72,327.76
Construction in Progress	1,246,553.87	1,246,553.87
Total	184,705,546.55	122,126,429.56

Review of the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) as at December 31, 2019 disclosed that ₱26.31 million or 14.24% out of the recorded PPE balance of ₱184.71 million pertained to the properties turned over by the LGU after the Water District took over the full operations of the defunct Toledo Waterworks System on April 2, 2002. However, the Inventory Committee expressly stated in the RPCPPE as at December 31, 2019 that the following properties could not be located during their conduct of the physical count:

Table 2- Unlocated Properties received by TCWD from LGU-Toledo

Year Received from LGU	Particulars	Cost	Carrying Amount
2002	Land and Land Improvements	₱ 306,944.00	₱ 306,944.00
2002	Building & Other Structures – General Public Services	25,966,306.92	17,149,024.94
2002	Building & Other Structures – Public Service in Progress	37,724.00	16,457.97
	Total	₱ 26,310,974.92	₱ 17,472,426.91

This matter has been brought to the attention of the Management in the CY 2015 AAR. As culled from the previous AAR, the above-mentioned properties have always been included/reported in the Report on the Physical Count of Property, Plant & Equipment (RPCPPE) though not seen or located from the time those were transferred to the Water District by LGU Toledo City.

According to the Management, they did not get any reply from the LGU, particularly from the City Accountant with regard to the letter that has been sent by the Water District on November 3, 2017 seeking for assistance about the turned over properties from LGU-Toledo. No further communications were sent by the Water District to follow-up the reply on their initial communication letter.

This condition casts doubt as to the existence of these unlocated properties which deems the reported amount of the PPE account questionable. It is worth mentioning that the buildings and other structures were subjected to monthly depreciation expense, hence, the Water District is recognizing expenses despite of the uncertainty whether said properties really existed. If those properties are indeed inexistent, the PPE balance in the agency's financial statements is overstated, while the reported net income is understated.

We recommended and Management agreed to exhaust all efforts to seek assistance, in writing, from the Toledo City LGU in locating the pertinent documents on the above-enumerated transferred properties in order to validate the existence/condition of said assets and to record appropriately in the books of the Water District.

This is a reiteration of the audit finding in the CY 2015 AAR which is still unsettled as at December 31, 2019. It is to be emphasized that unless and until the existence of the turned over properties are validated, this condition will always affect the fair presentation of the financial statements, in violation of PAS 1.

Management committed to make representations to the Local Government of Toledo City particularly to the General Services Department and the Accounting Department and to discuss the resolution of this audit observation.

- b. The reported PPE balance as at year-end included several items which should have been recorded under Repairs and Maintenance and Semi-Expendable accounts, contrary to Paragraph 15 of PAS 1 and Section 5.4 of COA Circular No. 2016-006 dated December 29, 2016, thereby overstating the PPE account by ₱55,992.00.**

Review of the additions to the PPE account and the lapsing schedule of TCWD for CY 2019 revealed the following:

Table 3- Transactions erroneously booked under the PPE Account in CY 2019

Journal Entry Voucher No./ Date	PPE Account Used	Particulars	Acquisition Cost	Remarks
19-11-0909/ 12/16/2019	UPIS-Other Pumping Plant	Purchase of 24 pcs paint pan and others for repainting of pumping stations per PO # 2019-09-091A-2	₱ 43,992.00	Should have been recorded under Repairs & Maintenance Account
19-12-1002/ 12/27/2019	UPIS-Transmission & Distribution	Foldable aluminum ladder for 3rd quarter engineering and operation supplies per PO # 2019-11-112A-3	12,000.00	Should have been reclassified to Semi-Expendable Inventory or appropriate expense account
Total			₱ 55,992.00	

From the illustration above, it can be observed that there were misclassifications in the PPE account, which is not in accordance with Section 5.4 of COA Circular No. 2016-006 dated December 29, 2016, as quoted on the next page:

“5.4 Tangible items below the capitalization threshold of ₱15,000 shall be accounted as semi-expendable property. The following policies shall be applied as follows:

5.4.1 Semi-expendable property which were recognized as Property, Plant and Equipment shall be reclassified to the affected appropriate semi-expendable inventory accounts, if not yet issued to end-users, expense accounts, if issued within the year, or accumulated surplus/deficit/retained earnings account if issued in prior years.

5.4.2 These tangible items shall be recognized as expense upon issue to the end-users.

5.4.3 Inventory Custodian Slip (ICS) shall be issued to end-user to establish accountability over the semi-expendable property. Accountability shall be extinguished upon the return of the item to the Property and Supply Division/Unit or in case of loss, upon approval of the relief from property accountability.”

Inquiry from the Accounting Division disclosed that the procurement of aluminum ladder was appropriated under Capital Expenditure (CapEx) in the Annual Procurement Plan since it already reached the capitalization threshold of ₱15,000.00. Since the budget was from CapEx, the actual cost of the ladder amounting ₱12,000.00 was recorded under PPE account (UPIS-Transmission & Distribution). The said transaction was included in the CY 2019 lapsing schedule of TCWD and subjected to an estimated useful life of 15 years using the straightline method of computing depreciation starting January, 2020. It shall be emphasized that although the budget was under CapEx, the recorded amount should have been booked to its appropriate account at year-end in compliance with the provisions of Section 5.4 of the COA Circular No. 2016-006.

On the other hand, the paint pans and other materials totaling ₱43,992.00 were used for repainting of the various pumping stations. The Engineering & Operations Division explained that the repainting was needed since the quality of the water produced in some of the areas were salty and that the paints of the pumping stations had already deteriorated. He also added that the remaining unused materials were used in some other purposes. The amount was capitalized because according to the Acting Division Manager, it will increase the useful life of the pumping stations. However, since the repainting is regularly done everytime the older paint deteriorates, this can be considered as repair and maintenance activity, thus, should be recorded under Repairs & Maintenance account.

Paragraph 12 of PAS 16 provides the standard on how to treat the subsequent cost incurred for an item of PPE, quoted as follows:

“Under the recognition principle in paragraph 7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the ‘repairs and maintenance’ of the item of property, plant and equipment.

The misclassifications in the PPE account resulted in the overstatement of the said account as at year-end by ₱55,992.00. To mention, the capitalization threshold has already been brought to the attention of the Management in the Annual Audit Report (AAR) for CY 2016.

We recommended and Management agreed to instruct the Accounting Division to comply with the provisions of PAS 1 and Section 5.4 of COA Circular No. 2016-006 dated December 29, 2016 and to correct the misclassifications using the following proposed adjusting journal entry:

<i>Retained Earnings *</i>	<i>₱ 55,992.00</i>
<i>PPE (UPIS-Other Pumping Plant)</i>	<i>₱ 43,992.00</i>
<i>PPE (UPIS-Transmission & Distribution)</i>	<i>12,000.00</i>

**Use Semi-Expendable Inventory account if the aluminum ladder amounting to ₱12,000.00 is still unissued to the end-user.*

- c. No impairment loss was recognized on certain PPE accounts despite the consistent reminder in audit for Management to provide an allowance for impairment as there are indications that TCWDs properties are impaired, thus the affected PPE accounts are carried at more than their recoverable amount which is contrary to PAS 36.**

PAS 36 deals with impairment testing for all tangible and intangible assets, except for assets that are covered by other IFRS. Paragraph 9 of the said standard provides that at the end of each reporting period, an entity is required to assess whether there is any indication that an asset may be impaired (i.e. its carrying amount may be higher than its recoverable amount). PAS 36 has a list of external and internal indications of impairment. If there is an indication that an asset may be impaired, then the asset’s recoverable amount must be calculated.

Verification of the Water District's Inventory and Inspection Report of Unserviceable Properties as at December 31, 2019 showed the following:

Table 4- Summary of PPE Accounts with unserviceable properties

Date Acquired	Account Name	Particulars	Total Cost	Carrying Amount
May 1, 2003	Land Transportation Equipment	Elf (Isuzu ELF - Double cab-SGU 470)	₱ 338,000.00	₱ 33,800.00
2002	UPIS Other Pumping Plant	Flowmeter	260,000.00	26,000.00
November 23, 2010	UPIS Reservoirs & Tanks	Pressure Control	67,289.38	37,681.78
November 30, 2009	UPIS Reservoirs & Tanks	Pressure Reducing Valve	52,944.80	26,472.80
March 31, 2008	Office Equipment	Airconditioned Unit (4 Units)	116,800.00	11,680.00
August 1, 2008	Office Equipment	Television	46,629.00	4,662.90
December 1, 2006	Office Equipment	Printer (Konica Copier Printer)	55,000.00	10,638.70
Total			₱ 936,663.18	₱ 150,936.18

It was informed that the Accounting Division is still waiting for the appraisal report from the Disposal Committee in order to determine the amount of the impairment loss that should be recognized in the books of accounts. The Disposal Committee is still on the process of verifying the PPEs of the Water District especially those unlocated properties turned over by the LGU. The appraisal report is one of the necessary documents to be attached in requesting for COA inspection and evaluation of unserviceable properties for disposal. The appraised value will also aid the District in the recognition of the impairment loss while the request for disposal is still for approval by COA.

Properties classified as unserviceable are clear indications of impairment, hence, the affected accounts are carried at more than their recoverable amount. This audit observation is a reiteration of the audit findings in CY 2017 AAR which still remained unresolved as at December 31, 2019.

We recommended that Management require the Disposal Committee to expedite the preparation of the Appraisal Report and submit a copy to the Accounting Division for the proper recognition of the impairment loss, if any.

We reiterated the prior year's audit recommendation that Management instruct the Accounting Division to ensure that all PPE items reported in the financial statements at year-end are carried at no more than their recoverable amount in compliance with PAS 36.

This is also to reiterate the sources of internal and external information that will aid the Water District in assessing whether there is any indication that an asset may be impaired, as quoted under Paragraph 12 of PAS 26, for ready reference, as follows:

“External sources of information

- (a) *There are observable indications that the asset’s value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.*
- (b) *Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.*
- (c) *Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset’s value in use and decrease the asset’s recoverable amount materially.*
- (d) *The carrying amount of the net assets of the entity is more than its market capitalization.*

Internal sources of information

- (e) Evidence is available of obsolescence or physical damage of an asset.
- (f) *Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite*
- (g) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.”
(underscoring supplied)

Management promised that the Appraisal Report of the Disposal Committee shall be submitted not later than May 31, 2020. It further promised that the Finance Department will strictly monitor its compliance thereof.

2. **The results of the physical count of Inventories showed shortages aggregating ₱1.865 million or 28.52% of the year-end balance of Inventories Account totaling ₱6.541 million. This condition resulted in the misstatement of the Inventories account by ₱1.865 million, thus the existence, accuracy and reliability of the balance of Inventories account could not be ascertained which is contrary to the provisions of Philippine Accounting Standards (PAS) 1.**

PAS 1 on Presentation of Financial Statements provides the following:

“The financial statements must present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.”

Presented below are the balances of the Inventories account of TCWD vis-à-vis the results of the physical count conducted:

Table 5 – Comparison of the General Ledger (GL) per Inventory Account vs Report on the Physical Count of Inventory (RPCI) as at the December 31, 2019

Inventory Account Name	GL Balance	Results of Physical Count	Variance	Remarks
Office Supplies	₱ 71,959.07	₱ 71,959.07	-	
Chemicals and Filtering Supplies	162,810.00	162,810.00	-	
Other Supplies and Materials	6,305,925.89	4,440,557.59	₱1,865,368.30	Shortage
Total	₱6,540,694.96	₱4,675,326.66	₱1,865,368.30	Shortage

Based on TCWD’s Report on the Physical Count of Inventories, it was noted that the physical count was conducted by the Inventory Committee on December 30 to 31, 2019. The report showed shortage or there were unaccounted inventory items aggregating ₱1,865,368.30 or 28.52% of the total balance of Inventories Account. There was no reconciliation nor adjustments done yet for the noted discrepancy.

On the handling of the inventory items, we gathered through our inquiry that the Warehouse Division was maintaining Stock Cards for each inventory item, however, these were not updated. On the other hand, the Accounting Division has been maintaining Stock Ledger Cards, but there was no monthly reconciliation made with that of the records of the Warehouse Division. A physical count of inventory items is conducted at the end of every calendar year. For CY 2018, it was noted that there was no unaccounted discrepancies in the Report of the Physical Count of Inventories (RPCI).

In CY 2019 audit, we performed test-checking of one inventory item, the Swing Valve ½” Ø, which showed the largest shortage/discrepancy during the physical count amounting to ₱539,224.20. Actual verification of records disclosed that the Warehouse Division did not maintain a Stock Card for this item, while the Accounting Division maintained a Ledger Card that contained information on the purchases and issuances of this item. It is to be stressed that the results of the physical count conducted for CY 2018, as evidenced by the RPCI, showed no shortage for this item. Further verification of records disclosed that there was no purchase or addition in CY 2019 for the item Swing Valve ½” Ø but only issuances with supporting Store Requisition Slips for a total of 15 pieces. However, at year-end of CY 2019, it was noted that there were variances aggregating 1,607 pieces or total cost of ₱539,224.20.

Further inquiry disclosed that the CY 2018 results of the physical count as indicated in the Report on the Physical Count of Inventories were not the actual balances counted but the balances of the Accounting Division's Ledger Card. While for CY 2019, the actual quantity counted during the physical count was already indicated in the Report on the Physical Count of Inventories, thus, there were discrepancies noted in most inventory items.

Physical count of inventory is conducted to ensure the existence and condition of the items that are recorded/reported as on hand, a tool in validating account balances and to attest if losses are not due to theft or other irregular activities. With the given results of the physical count conducted, until and unless Management can resolve or can validly account such variance/discrepancy, this represents losses or unaccounted items.

We recommended and Management agreed to direct the Warehouse and Accounting Divisions to account for the shortages or discrepancies that were noted during the CY 2019 physical count, in order to determine proper disposition, as these may represent losses that must be recouped from the person/s liable or may require adjusting entries only, to fairly state the reported balance of the Inventories account as at year-end.

The Department Manager B–Finance commented that due to the turnover of personnel, the members of the Inventory Committee are also new and are not familiar with the locations of some of the inventory items. However, they made an assurance that they will locate for the missing items and submit the final inventory report on or before March 31, 2020.

- 3. The Accounts Receivable–Local Government Unit account, a subsidiary of the Accounts Receivable account, was not assessed whether there is any indication that the recognized impairment loss in previous years still existed or may have decreased as required in Philippine Accounting Standards (PAS) 39. This condition resulted in the overstatement of the Allowance for Impairment and understatement of the Reversal of Impairment Loss accounts for ₱0.760 million as at December 31, 2019.**

The following are the relevant provisions of PAS 39 on Financial Instruments:

Par 58 *“An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.*

Par 65 *“If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that*

exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.”

The Accounts Receivable (AR) and Allowance for Impairment accounts of TCWD are composed of the following balances:

Table 6- Composition of the AR account as at December 31, 2019

Subsidiary Account Name	Balance		
	Accounts Receivable	Allowance for Impairment	Net
AR- Customers	₱ 18,515,857.41	₱ 9,447,521.45	₱ 9,068,335.96
AR- Local Government Unit (LGU)	7,352,436.23	7,376,831.24*	(24,395.01)
Total	₱ 25,868,293.64	₱ 16,824,352.69	₱ 9,043,940.95
----- *Last transaction was in CY 2017			

As can be gleaned from the table above, the AR-LGU has a negative net balance since the Allowance for Impairment is greater than the gross amount of the corresponding AR account as at December 31, 2019.

To recall, the account AR-LGU represents the unpaid water bills of several government offices at the time when the LGU of Toledo undertook the operations of the waterworks system which was turned over to the Water District on April 2, 2002. Collections for CYs 2018 and 2019 were ₱502,673.57 and ₱341,369.36, respectively.

Record shows that the Allowance for Impairment was computed based on the impairment policy of the Water District pursuant to a Board Resolution No. 64-2018 which was unanimously approved on December 17, 2018, as follows:

Age/ Status	Percentage (%)
1 – 30 days	5
31 – 90 days	10
Over 90 days	25
Disconnected	100

However, based on historical records and inquiry with Management it was found out that TCWD recognized 90% of the AR-LGU balance as its Allowance for Impairment in CYs 2015 to 2017. While in CYs 2018 and 2019, TCWD did not recognize any impairment loss or made any reversal of the recognized impairment loss for AR-LGU. For purposes of computing the correctness of the computed allowance for impairment, the whole balance of AR-LGU account was considered. The AR-Customers account will be computed separately. Thus, the required Allowance for Impairment of AR-LGU as at year-end, is computed as follows:

Particulars	Amount
“Should-Be” Allowance for Impairment as at December 31, 2019 (₱7,352,436.23 x 90%)	₱ 6,617,192.61
Allowance for Impairment, as at December 31, 2019	7,376,831.24
Excess (For Reversal of Impairment Loss)	₱ 759,638.63

Moreover, the Water District was able to collect the AR-LGU in CYs 2018 and 2019 totaling ₱502,673.57 and ₱341,369.36, respectively. There should have been a reversal of the impairment loss that was recognized in previous years. Had this been assessed, appropriate reversal could have been made thus, the net income for CY 2019 would have increased by ₱759,638.63.

In our inquiry with the OIC-Division Manager of Accounting Division, there was no entry made in the books since they were not aware of any account title to be used in booking the resulting reversal of the impairment loss.

We recommended and Management agreed to instruct the Senior Accounting Processor A to draw a Journal Entry Voucher to book the reversal of impairment loss for CY 2019 by debiting the Allowance for Impairment and crediting the Retained Earnings accounts in the amount of ₱759,638.63.

Also, we recommended and Management agreed to revisit its accounting policy on the provision of allowance for impairment and to assess at the end of each reporting period whether there is any indication that an impairment loss recognized in previous years may still exist or no longer exist or may have been decreased so as to fairly state the Accounts Receivable account.

- 4. The Construction in Progress (CIP) account totaling ₱1.247 million as at December 31, 2019 was composed of supplies and materials intended for projects which were discontinued by TCWD due to lack of permits/clearances. This circumstance is contrary to paragraph 15 of the Philippine Accounting Standards (PAS) 1 and COA Circular No. 2015-010, thereby misstating the CIP account by the same amount. Moreover, the discontinuance of these projects exposes the procured materials to loss and deterioration, thus wasting the scarce resources of the government.**

Paragraph 15 of the PAS 1 provides for the fair presentation and the required application of International Financial Reporting Standards (IFRS) as follows:

“Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.” (Emphasis supplied)

Similarly, under the COA Circular No. 2015-010 Annex A, **Construction in Progress-Infrastructure Assets** account is used to recognize the accumulated cost or other appropriate value of infrastructure assets which are still in the process of construction or acquisition. Said account is credited for reclassification to the proper Infrastructure Assets account upon completion.

For CY 2019, Toledo City Water District reported a total CIP balance of ₱1,246,553.87 with the following details:

Table 7- Composition of the CIP Account as at December 31, 2019

Account Code	Account Name/Project	Cost	Remarks/Status
10699-020-99	CIP-Public Infra Assets- Pipe Relocation @ Brgy. Sangi	₱1,212,398.87	Approved project but not implemented due to the DPWH's non-granting of permit to lay pipes within 15 meters from center of road. A Road Right of Way was therefore suggested for the pipes to be layed, however, it was not included in the approved Program of Work. This project is yet to be closed subject to a Board of Director's (BOD) resolution.
10699-020-107	CIP-Supply & Installation of Materials for Clustering @ Central	34,155.00	This is a carry over project in 2020 to be charged to LWUA's remaining funds. Status of the implementation of this project remains "at pending" because of the uncompleted DPWH Project (replacement pipelines of Poblacion). This is to be closed upon the issuance of a BOD Resolution
TOTAL		₱1,246,553.87	

Upon inquiry on the status of the above-mentioned projects from the Engineering Division, it was revealed that the Pipe Relocation project in Barangay Sangi was discontinued due to the inability of the Water District to secure the necessary excavation permit from the Department of Public Works and Highways (DPWH) during the 3rd quarter of CY 2018. Further inquiry with the Accounting Division Manager disclosed that DPWH initiated the request for TCWD to transfer their pipelines as these were affected by the drainage and road widening projects. The initial agreement was to have a synchronized implementation of the drainage and road widening project of the DPWH and the transfer

of the affected pipelines of the Water District. This is to ensure that the excavation will be done once, but since TCWD was not able to procure the materials on time, they were not able to implement the pipe laying as agreed. After the DPWH restored the road used for the drainage project, they no longer allowed the TCWD to excavate the same area unless they will pay for the right of use and restore the whole area after the excavation (not only the part where they will excavate). Since the payment of the right of use was not part of the POW, TCWD discontinued the implementation of the project. The materials for this project were purchased sometime in 2017. According to the Acting Accounting Division Manager, the project was not yet closed in the CIP account since they were still waiting for the board resolution approving the termination of the project. As of the date of audit, the Accounting Division was not yet provided with the board resolution.

While for the Supply & Installation of Materials for Clustering at Central, the Engineering Division pointed out that at the time of implementation of the project, there was already an ongoing DPWH project that needs to be completed first before they can pursue with the Water District's project. According to the Acting Accounting Division Manager, the timeline on the completion of the DPWH project is still not certain. The materials to be used in the project were purchased last July, 2018 yet. The discontinuance of the projects is disadvantageous to the government as it exposes the procured materials to loss and deterioration.

Management, however, will conduct an inventory count of the excess materials during the month of February 2020.

Moreover, in both cases, the CIP account balance was misstated by a total amount of ₱1,246,553.87. The reported balance of the CIP account as at year-end should have been zero since the aforementioned projects were due for termination even before 2019.

It shall be stressed that fair presentation of the financial statements is vital as it aids the users of its report in making sound economic decisions, therefore, the balances presented should reflect the true nature of the transactions as at reporting date.

We recommended and Management agreed to conduct an inventory taking to account the existence of these supplies/materials and prepare the appropriate report indicating therein the complete details of the items including their conditions, i.e if still usable.

We further recommended and Management agreed to instruct the Accounting Division to strictly adhere to the provisions of PAS 1 and COA Circular No. 2015-010, specifically on the fair presentation of the financial statements and the proper recognition of the CIP in the TCWD's books of accounts, using the following proposed adjusting entry (*with the supporting BOD resolution*):

<i>Retained Earnings/ Other Materials and Supplies Inventory*</i>	<i>- 1,246,553.87</i>
<i>CIP-Supply & Installation of Materials</i>	

<i>for Clustering @Central</i>	- 1,212,398.87
<i>CIP-Public Infra Assets-Pipe Relocation</i>	
<i>@ Brgy. Sangi</i>	- 34,155.00
<i>*Other Materials and Supplies Inventory if materials are not yet utilized in other projects/purpose; otherwise, use <u>Retained Earnings</u></i>	

For future projects, we recommended and Management agreed to ensure that the required clearances/permits are accordingly secured, if warranted, before any procurements are made.

Management had already terminated the project as authorized by the Board of Directors of TCWD. They also made an assurance that they will comply with PAS 1 and COA Circular No. 2015-010.

We further recommended that Management submit to the Audit Team the result of inventory count of the materials for these projects, for further review and evaluation, as the transactions may warrant further audit action pursuant to COA Circular 2009-006 dated September 15, 2009 or COA’s Rules and Regulations on Settlement of Accounts.

Other Audit Observations

- 5. The Guaranty/Security Deposits Payable account included bidder’s bond aggregating ₱0.143 million as at year-end, which were not claimed by the suppliers, notwithstanding the fulfillment of the purpose of the bond. This condition contributed to the accumulation of balances of the payable account which has been outstanding for more than two years.**

The revised Chart of Accounts for Government Corporations issued under COA Circular 2015-010 dated December 1, 2015 provides the description of the Account Guaranty/Security Deposits Payable as follows:

Account Number / Normal Balance	Account Title / Account Description
20401040 / Credit	Guaranty/Security Deposits Payable

This account is used to recognize the incurrance of liability arising from the receipt of cash or cash equivalents to guaranty: (a) the winning bidder shall enter into contract with the procuring entity; and (b) performance by the contractor of the terms of the contract. Debit this account for refund after the fulfillment of the purpose of the bond or forfeiture upon failure to comply with the purpose of the bond.

The Guaranty/Security Deposits Payable account of Toledo City Water District has a balance of ₱143,223.71 as at December 31, 2019. Verification of records disclosed that the account included bidder’s bond which were received from various suppliers that

remained outstanding for more than two years even if the purpose of the bond had already been performed/fulfilled. Furthermore, we noted that some of its supporting documents are no longer traceable. The details of the account are shown in the following table:

Table 8- Composition of Guaranty/Security Deposits Payable

Supplier	Particulars	Reference No./ Date	Amount	Remarks
EDMI Philippines	Bidder's/Security Bond- Water meters & fittings	JEV 19-04-0255/ OR844890 04.24.2019	₱ 42,512.50	
Good Care Eng'g Supplies & Services	Bidder's Bond- Electro extractor chamber @ Luray Pump Station	CN 06-2016/ OR 31160/ 06.20.2016	17,520.00	*
Perseus Safety & Security	Bidder's Bond- Security services	CN 08-2015/ OR 302505/ 08.20.2015	15,840.00	*
Phil. Valve Manufacturing Co.	Bidder's Bond- Transmission & Distribution power line @ Sitio Tunnel Phase 2, Lot 2 & 3	CN 05-1914/ OR 165225/ 05.19.2014	8,752.00	*
Techno Trade	Bidder's Bond- Supply of materials for Sitio Tunnel Phase 2, lot 1	CN 05-0914/ OR 160679/ 05.09.2014	4,810.00	*
RRY Ent.	Performance Bond- Supply of materials @ Sitio Tunnel Phase 1	CN 11-0513/ OR 77338/ 11.05.2013	425.50	*
New Interlock Sales	Bidder's Bond	CN 06-0110/ 06.30.2010	20,400.00	^
New Interlock Sales	Bidder's Bond- Submersible & centrifugal pump	CN 07-0510/ 07.31.2010	20,557.35	^
Mijaka Enterprises	Bidder's Bond	CRJ 11-2008/ 11.07.2008	7,191.61	^
Techno Trade Resources	Bidder's Bond	CRJ 11-2008/ 11.07.2008	5,214.75	^
Total			₱ 143,223.71	
* Traced to Monthly Collection Report				
^Traced to Schedule of Contractor's Security Deposits as of October 31, 2012				

Moreover, our audit disclosed that the amount of bidder's bond per supplier was not clearly identified in the Subsidiary Ledger as it was mixed up with some other deposits from different suppliers. Thus, verification of the appropriate amount of bidder's bond were traced to the Monthly Collection Report and Schedule of Contractor's Security Deposits.

Further scrutiny of the documents disclosed that the cash received from New Interlock Sales amounting ₱20,400.00 was originally booked under Bail Bond Payable account and was reclassified to Contractor's Security Deposits account as per JEV 08-10-2395 dated August 17, 2010. This amount can be seen only in the Schedule of Contractor's Security Deposits as of October 31, 2012 together with the three other suppliers, namely, New Interlock Sales, Mijaka Enterprises and Techno Trade Resources amounting ₱20,557.35, ₱7,191.61 and ₱5,214.75, respectively.

Our inquiry revealed that the above-mentioned bidder's bond/security remained in the books since the suppliers did not claim their deposits and the Water District did not inform the suppliers that they can now ask for refund of their deposits. This contributed to the accumulation of the balance of this liability account.

We recommended and Management agreed to inform the concerned suppliers for the refund of their security deposits, only if the purpose of the bond has already been performed/fulfilled. We further recommended and Management agreed to require the Accounting Unit to update the Subsidiary Ledgers, incorporating therein the details of the security deposits, to facilitate in monitoring the Water District's liabilities to various suppliers/bidders.

Management informed the Audit Team that they contacted all the suppliers with unclaimed bidder's bond and three of these suppliers had requested for such refund.

6. The Water District could have generated additional revenue of ₱0.614 million in CY 2019, had the applicable rate been applied to Balamban Water District's bulk water supply service connection.

Section 63 of PD 198 which is referred to as the "Provincial Water Utilities Act of 1973", as amended, provides:

"Section 63. The rates or charges established by such local district, after hearing shall have been conducted for the purpose, shall be subject to review by the Administration to establish compliance with the above-stated provisions."

The latest approved water rates of TCWD was confirmed by the Local Water Utilities Administration (LWUA) Board of Trustees on December 1, 2011 per Board Resolution No. 11-2011, and transmitted to the Water District in a letter dated December 5, 2011. The Schedule of Approved Water Rates which was implemented on December 1, 2011 carries the following classification of service connections: (1) Residential/Government; (2) Commercial/Industrial [Commercial A; Commercial B and Commercial C] and (3) Bulk/Wholesale.

Table 9- Applicable water rates under the Bulk/Wholesale Category

Meter Size	Minimum Charge	Commodity Charge (in cubic meter)			
		11-20	21-30	31-40	41-up
½ ”	₱ 468.00	₱ 54.60	₱ 63.60	₱ 73.20	₱ 85.80
¾ ”	748.80	54.60	63.60	73.20	85.80
1 ”	1,497.60	54.60	63.60	73.20	85.80
1 ½”	3,744.00	54.60	63.60	73.20	85.80
2 ”	9,360.00	54.60	63.60	73.20	85.80
3 ”	16,848.00	54.60	63.60	73.20	85.80
4 ”	33,696.00	54.60	63.60	73.20	85.80

Our audit disclosed that the rate applied to an account opened on October 9, 2019 under the name of Balamban Water District (BWD) was a special rate of ₱22.00 per cubic meter instead of the applicable rate under the Bulk/Wholesale classification. Based on BWD’s service application, it was gathered that the application was for a bulk water supply with 1 ½ ” meter size. The supporting Memorandum of Agreement (MOA) for the bulk water supply of TCWD to BWD provides that the service is for Barangay Arpili, Balamban, Cebu, the farthest part of BWD’s distribution line but located near one of TCWD’s water sources, the Mainggit Spring. The service will be availed until BWD’s completion of the development of its water source located in Barangay Arpili, at most, three months after the service application date. The rate of ₱22.00 per cubic meter was provided in the MOA with no supporting Board Resolution for the approval of the ₱22.00 per cubic meter rate, nor an approval from the LWUA.

Presented below are the details of the water consumption of BWD with the corresponding billed amount:

Table 10- Summary of BWD’s water consumption and billed amount in 2019

Month	Consumption (in cu. m.)	Amount Billed ^{1/}	Should-Be (based on the LWUA approved water rates) ^{2/}	Difference
November	4,821	₱ 106,282.00	₱ 415,867.80	₱ 309,595.80
December	4,740	104,500.00	408,918.00	304,418.00
Total	9,561	₱ 210,782.00	₱ 824,785.00	₱ 614,013.80

^{1/} No. of cubic meters at ₱22.00 plus ₱220.00
^{2/} Applying the water rate under the 1 ½ ” meter size

A similar audit observation was noted in the CY 2018 Annual Audit Report in which TCWD replied that they were not aware of any applicable rate for the bulk water supply, thus they granted such special rate.

For this bulk water supply to BWD, using again a special rate, our inquiry disclosed that this was granted as an accommodation to BWD since this service had lasted only for

three months, as approved by the former General Manager. The present arrangement has deprived the Water District of additional income totaling ₱614,013.80 in CY 2019.

We recommended and Management agreed to secure approval from LWUA on the grant of a special water rate to BWD. We also recommended that henceforth, Management ensure that LWUA’s approval is obtain prior to the grant of water rates which are not in accordance with the LWUA approved rates.

To mention, Chapter 10 of the LWUA Manual on Water Rates and Related Practices, 2nd Edition, which deals on the subject: Sanctions on Misimplementation of Water Rates, provides the following, among others:

➤ *“In order to protect consumers from arbitrary and indiscriminate water rate increases, LWUA sees to it that only rates confirmed by the Administration are implemented. On this regard, LWUA takes due concern of **district’s non-implementation of confirmed rates since such inaction affects its viability and capability to settle obligations.** Towards this end, LWUA adopted specific sanctions on both the implementation of non-confirmed rates and the non-implementation of confirmed rates.”*
(Emphasis Supplied)

➤ *NOT IMPLEMENTING LWUA CONFIRMED RATES*

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“(1) The district is admonished and required to explain that of implementing different rates. At the same time, LWUA must conduct an immediate rate review. If findings of the rate audit show adverse effect on the cash requirement, the district will be required to implement the confirmed rates within 30 days after the review. Otherwise, LWUA may confirm the actual rates implemented after compliance of all requirements.

(2) If the district makes no action to correct the situation or comply with the requirements, LWUA may withhold loan fund releases or balance of loan, if any, or withhold release of funds to implement loans otherwise already approved.

(3) If the district still refuses to comply, LWUA may withhold or recall approval of previously approved loans not yet implemented or refuse to make or approve new loans.”

Management explained that their action of supplying water to Balamban Water District is temporary and a way to support their fellow Water District. However, they are amenable to the recommendation and in fact already submitted their request to LWUA.

7. **The formulation/preparation of the Water Safety Plan (WSP) was not completed as at December 31, 2019, thus the Water District failed to implement and to submit its WSP to the Department of Health (DOH) through the Local Utilities Administration (LWUA) as required under DOH Administrative Order No. 2014-0027 dated September 4, 2014 and LWUA Memorandum Circular No. 010.14 dated December 1, 2014.**

“The most effective means of consistently ensuring the safety of a drinking-water supply is through the use of a comprehensive risk assessment and risk management approach that encompasses all steps in water supply from catchment to consumer. In these Guidelines, such approaches are called water safety plans (WSPs).” [Taken from the Water Safety Plan Manual published by the World Health Organization and International Water Association.]

The Department of Health (DOH), in accordance with its mandate of being primarily responsible for the formulation, planning, implementation and coordination of policies and programs in the field of health, strongly supports the application of a risk management approach, known as water safety plan (WSP), by all water service providers. Thus, the Department issued DOH Administrative Order (AO) No. 2014-0027 dated September 4, 2014 on the subject: National Policy on Water Safety Plan (WSP) for All Drinking-Water Service Providers.

The following, among others, are contained in the aforementioned DOH Administrative Order:

- *“The Department of Health hereby declares the development and implementation of Water Safety Plan by all drinking-water service providers as a national policy for drinking-water quality management.”* (Item II, Policy Statement)
- *“All drinking-water service providers shall develop water safety plans for their water supply systems within three years after the issuance of this Order and ensure its implementation after its approval.”* (Item VI A, General Guidelines)
- *“The DOH shall lead all the activities related to WSP development and implementation and shall establish coordination mechanism with concerned agencies, institutions and partners for WSP program.”* (Item VIII, Institutional Arrangements)

The role and responsibilities of DOH and the Local Water Utilities Administration (LWUA) in implementing the water safety plan of water districts are listed in Item IX of said DOH AO. Quoted hereunder, for ready reference, are the pertinent provisions on the matter:

“IX – ROLES AND RESPONSIBILITIES

- A. *Department of Health (DOH) shall*
 - 1. *Require all drinking-water service providers to submit water safety plans;*
 - 2. *x x x ;*
 - 3. *x x x ;*
 - 4. *x x x ;*
 - 5. *x x x ;*
 - 6. *x x x ;*
 - 7. *Review, approve and monitor all WSPs;*
 - 8. *x x x ;*
 - 9. *x x x ;*
 - 10. *x x x.*

- B.

- C. *Local Water Utilities Administration (LWUA) shall:*
 - 1. *Develop guidelines for WSP processes for local water districts and RWSAs in accordance with this Order;*
 - 2. *Direct the local water districts and RWSAs to develop and implement WSP;*
 - 3. *Extend technical assistance to local water districts and RWSA on the development and implementation of WSP;*
 - 4. *Review and recommend approval of draft WSP of local water districts and RWSAs; and*
 - 5. *Monitor and evaluate the implementation of WSP of Water Districts ad RWSA.*

Accordingly, in compliance with the DOH AO, the LWUA issued Memorandum Circular (MC) No. 010.14 dated December 1, 2014, directing all Water Districts (WDs) and Rural Waterworks and Sanitation Association (RWSAs) to develop and implement water safety plan and comply with the provisions of DOH AO No. 2014-0027. The Memorandum Circular further stated that the development and implementation of the water safety plan shall become part of the institutional requirements that LWUA will need from WDs and will form part of the components in evaluating the WD’s performance.

During the entrance conference, the Management informed the Audit Team that in 2019, the Water District has started the formulation of its WSP with a goal to finish it by the end of March 2020. However, at the time of audit, it was noted that the Management is still on the initial stage of formulation of its WSP.

Further inquiry disclosed that LWUA will extend technical assistance in the development of the plan and shall review and recommend the approval of the draft WSP. In the meantime, the Water District submits water sample for bacteriological testing every month and other chemical testing, such as, physicochemical test & chloride test, to assure the quality and safety of the water being distributed to its concessionaires.

The 11-step process of the World Health Organization (WHO) shall be the main guideline in developing the WSP, as follows: (1) Assemble the WSP team; (2) Describe the water supply system; (3) Identify the hazardous events and assess the risks; (4) Determine and validate control measures, reassess and prioritize risks; (5) Develop, implement and maintain an improvement/upgrade plan; (6) Define monitoring of the control measures; (7) Verify the effectiveness of the WSP; (8) Prepare management procedures; (9) Develop supporting programs; (10) Plan and carry out periodic review of the WSP; and (11) Revise the WSP following an incident.

The non-formulation of the required WSP may affect the Water District's efficiency and effectiveness of consistently ensuring safe drinking-water supply to all its concessionaires.

We recommended that Management take appropriate action, if possible, coordinate with LWUA, in order to hasten the formulation of the required Water Safety Plan as it serves as a tool for the Water District to immediately address the various risks associated with water contamination at the different points of the water system.

We reiterated our audit recommendation for Management to submit the WSP to the DOH through LWUA as directed under DOH AO No. 2014-0027 and LWUA Memorandum Circular No. 010.14.

Management informed the Audit Team that they are already 80 per cent complete with the formulation of their Water Safety Plan and committed to finish it on or before May 31, 2020.

8. The percentage of Non-Revenue Water (NRW) for CY 2019 was 32 percent of the total water production or 6.67 percent higher than the maximum acceptable rate of 30 percent as set under the Local Water Utilities Administration (LWUA) Memorandum Circular No. 011-18.

The LWUA Board of Trustees Resolution No. 444, series of 2009, approved the reduction of the maximum acceptable NRW from 25% to 20% which are applicable to all Water Districts to further improve their efficiency and financial viability. However, on June 1, 2018, the NRW threshold has been increased to 30% as per LWUA Memorandum Circular No. 011-18.

Verification of the Water District's monthly Production Report disclosed the following figures on NRW for CY 2019, which are beyond the maximum acceptable limit set by LWUA.

Table 11- NRW Computation (CY 2019)

Month	Production (in cu. m.)	Total Production Cost (in ₱)	Average Production Cost per cu. m. (in ₱)	Billed Water (in cu. m.)	NRW (in cu. m.)	NRW (%)	Total Cost of NRW (in ₱)
Jan.	442,381	1,996,706.82	4.51	323,797	118,584	26.81	535,317.10
Feb.	457,214	2,060,596.12	4.51	279,000	178,214	38.98	803,220.37
Mar.	407,992	1,990,833.13	4.88	276,937	131,055	32.12	639,455.60
April	449,400	1,878,603.82	4.18	304,621	144,779	32.22	605,286.15
May	438,278	1,908,598.39	4.35	306,647	131,631	30.03	573,152.10
June	439,288	2,017,183.11	4.59	313,602	125,686	28.61	577,116.09
July	447,326	2,044,093.65	4.57	298,261	149,065	33.32	681,092.00
Aug.	459,528	1,916,891.61	4.17	307,684	151,844	33.04	633,340.99
Sept.	449,016	1,922,591.53	4.28	304,820	144,196	32.11	617,344.14
Oct.	434,083	1,848,378.83	4.26	298,003	136,080	31.35	579,466.76
Nov.	468,725	1,849,443.18	3.95	311,978	156,747	33.44	618,453.80
Dec.	426,493	1,888,246.54	4.43	298,324	128,169	30.05	567,418.09
Total	5,319,724	23,322,166.73		3,623,674	1,696,050	31.88	7,430,663.18

From the data above, it can be derived that the Water District was not able to attain the efficiency level of its operations since the maximum acceptable NRW rate of 30% was not maintained. On the average, the NRW or the unaccounted water production was 32% of the total production in CY 2019, which amounted to an unnecessary expense of ₱7,430,663.18. While LWUA has prescribed a 30% tolerable allowance for NRW, still these are considered losses of the Water District which greatly affects its operational efficiency and financial viability. Had the NRW for CYs 2019 totaling 1,696,050 cu. m. were sold at ₱156.00 for every 10 cu. m., the minimum rate applicable for residential, the Water District could have generated ₱26,458,380.00 from such water sales.

This had been brought to the attention of Management in the Annual Audit Reports since CY 2013 and we, however commend Management's effort of reducing the NRW from that of the previous years. Records show that TCWD had reduced the NRW rate from 39% in CY 2017 to 32% this year.

We recommended that Management continue to implement additional preventive measures to eventually reduce the NRW rate to the acceptable maximum level of 30% or even lower, and accordingly prevent further revenue losses.

Management commented that they already have a list of projects that could address the high NRW of TCWD. However, due to financial constraints they cannot implement all those projects but they will continue to make initiatives to reduce and achieve the standard NRW.

- 9. Disbursements intended for the Contract of Service (COS) workers’ government’s counterpart of PhilHealth contributions totaling ₱13,283.92 and Service Recognition Incentive (SRI) aggregating ₱108,000.00 in CY 2019 are contrary to Paragraph 3, Section 8.0 of CSC-COA-DBM Joint Circular No. 1, s. 2017 and Section 5.4 of DBM Budget Circular No. 2019-6. Thus, the disbursements have no legal basis since the Water District and the COS workers do not have employer-employee relationship.**

The third paragraph of Section 8.0 of CSC-COA-DBM Joint Circular No. 1, s. 2017 dated June 15, 2017 specifically states that:

“Individuals hired through contract of service shall have the option to enroll themselves in social benefit programs thru the SSS, PhilHealth and Pag-IBIG Fund as self-employed members.”

Moreover, Section 5.0 of DBM Budget Circular No. 2019-6 provides the conditions and guidelines on the grant of the One-Time SRI, as follows:

- “5.1 The civilian personnel are occupying regular, contractual or casual positions;*
- 5.2 The personnel are still in the government service as of 30 November 2019;*
- 5.3 The personnel have rendered at least four (4) months of service as of 30 November 2019;*
- 5.4 Employees who have rendered less than four (4) months of service as of 30 November 2019 shall be entitled to a pro-rated share of the SRI, as follows:*

<i>Length of Service</i>	<i>Percentage of the Incentive</i>
<i>3 months but less than 4 months</i>	<i>40%</i>
<i>2 months but less than 3 months</i>	<i>30%</i>
<i>1 month but less than 2 months</i>	<i>20%</i>
<i>Less than 1 month</i>	<i>10%</i>

Review of the CY 2019 payrolls for the payment of wages to the COS workers showed that TCWD paid the employer’s counterpart of the PhilHealth contributions which aggregated to ₱13,283.92. Our inquiry also revealed that three of the COS workers became regular employees starting November 1, 2019. Thus, the computed Philhealth contributions include only those remitted prior to the regularization of these three COS workers.

Furthermore, our audit disclosed that TCWD paid the COS workers Service Recognition Incentive totaling ₱114,000.00, which is not in consonance with the provisions of DBM Budget Circular No. 2019-6. Of the 12 COS workers, three of them were given plantilla items and have rendered one month but less than two months of service from the time of their regularization. Hence, they were entitled to receive SRI amounting to ₱2,000.00 each only or 20% of the incentive per Section 5.4 of DBM Budget Circular No. 2019-6. However, record shows that the three employees were paid in the full amount of ₱10,000.00, instead of ₱2,000.00 each. Below are the details of payments and the corresponding amounts which are disallowable in audit:

Table 12- Philhealth Employer Share contribution, and Service Recognition Incentive (SRI) received by COS Workers in CY 2019

Initial of the COS Workers	PhilHealth	SRI (Paid)	SRI (Allowable)	Total Disallowable	Remarks
D.A.	₱ 137.50	-	-	₱ 137.50	COS in 2018 but not renewed in 2019
C.O.	137.50	-	-	137.50	-do-
M.T.	137.50	-	-	137.50	-do-
O.J.A.	^1,570.58	♦10,000.00	2,000.00	9,570.58	Hired as regular employee starting November 1, 2019
C.C.	1,650.00	10,000.00	-	11,650.00	
J.C.	^1,512.50	♦10,000.00	2,000.00	9,512.50	Hired as regular employee starting November 1, 2019
E.E.	428.34	4,000.00	-	4,428.34	
MJ.G.	1,522.50	-	-	1,522.50	
M.G.	-	♦10,000.00	2,000.00	8,000.00	Hired as regular employee starting November 1, 2019
R.L.	550.00	-	-	550.00	
CSL	687.50	10,000.00	-	10,687.50	
SEM	1,650.00	10,000.00	-	11,650.00	
FRBM	1,650.00	10,000.00	-	11,650.00	
FCP	-	10,000.00	-	10,000.00	
KBLR	-	10,000.00	-	10,000.00	
JRMR	1,650.00	10,000.00	-	11,650.00	
KMR	-	10,000.00	-	10,000.00	
Total	₱ 13,283.92	₱114,000.00	₱6,000.00	₱ 121,283.92	
<p>♦ SRI (Should be) computation (1 month but less than 2 months): ₱10,000*20% = ₱2,000.00 ^ Philhealth contribution (Agency Share) for the period covered December 2018 and January to October 2019</p>					

It shall be stressed that as the contracts of the COS workers do not create an employer-employee relationship with TCWD, the payment for the employer’s share of the Philhealth contribution, and the SRI for CY 2019 are deemed without legal basis.

We recommended and Management agreed to instruct the Accounting Unit to stop the payment of employer’s share for the Contract of Service (COS) workers’ PhilHealth contributions. Furthermore, we recommended that Management require the immediate refund of the Service Recognition Incentive paid to the COS workers and also the portion of the Water District’s counterpart of the contributions already remitted to PhilHealth.

Gender and Development

The budget allocation for Gender and Development (GAD) programs, projects and activities for CY 2019 was ₱24,329,000.00 or about 18.44 percent of the total budget of ₱131,936,064.08. However, the utilization of the GAD budget was only 5.73 percent or a total of ₱1,393,314.61. Inquiry with Management disclosed that the low utilization rate was due to the delay in the release of the LWUA loan of ₱25 million. The GAD-related activities for CY 2019 were being mainstreamed in the projects that were to be funded by the said LWUA loan.

Compliance with Tax Laws

The regulations of the Bureau of Internal Revenue (BIR) on the withholding of required taxes were substantially complied with by TCWD. The withheld taxes were remitted regularly to the BIR along with the franchise tax due from TCWD as seller of water. The details of the taxes remitted to the BIR during the year are as follows:

Table 13- Summary of Tax Remittances to BIR in CY 2019

Code	Tax Description	Amount
1601-E	Expanded Withholding Tax	₱ 315,923.12
1601-C	Withholding Tax –Compensation	1,148,251.45
1600	VAT	1,512,433.43
2551-M	Franchise Tax	1,593,058.21
Total		₱ 4,569,666.21

GSIS Deductions and Remittances

TCWD has consistently deducted from the salaries of their employees the mandatory GSIS Life and Retirement insurance premiums (personal share) and loan repayments. These deductions and the government share for the employees’ insurance premiums were remitted to the GSIS on time. The following were remitted in CY 2019:

Table 14- Summary of Remittances to GSIS in CY 2019

Transactions Covered by the Remittance	Amount
GSIS Life and Retirement Premiums (Government Share)	₱2,440,091.37

Transactions Covered by the Remittance	Amount
GSIS Life and Retirement Premiums (Personal Share)	1,830,068.52
Consolidated Loan Repayments	2,084,285.20
Employees Compensation Contributions	89,100.00
Educational Assistance Loan	73,884.47
Policy Loan	20,902.62
GFAL	120,788.02
Emergency Loan	521,825.76
TOTAL	₱7,180,945.96

Status of Settlement of Audit Suspensions, Disallowances and Charges

The following table shows the outstanding audit suspensions, disallowances and charges of Toledo City Water District as of December 31, 2019:

Particulars	Balance 12.31.2018	Issued and Settled During the Year 2019		Balance 12.31.2019
		Issued	Settled	
Suspensions	₱ 127,216.25	0.00	0.00	₱ 127,216.25
Disallowances	2,893,345.86	0.00	0.00	2,893,345.86
Charges	0.00	0.00	0.00	0.00
Total	₱ 3,020,562.11	0.00	0.00	₱ 3,020,562.11

PART III

STATUS OF IMPLEMENTATION BY THE AUDITEE OF PRIOR YEARS' AUDIT RECOMMENDATIONS

We followed up the actions taken by Management on the implementation of the 23 prior years' audit recommendations and noted that nine were fully implemented, six partially implemented and eight were not implemented as at December 31, 2019. The details are:

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
<p>I. The balance of Accounts Payable account as at December 31, 2018 aggregating ₱10.475 million could not be ascertained due to:</p> <p>(a) inclusion of obligations which had been outstanding for more than two years and without valid claims which is contrary to Section 98 of PD 1445; and</p> <p>(b) recording of liability that is doubtful validity due to lack of supporting documents. These conditions have overstated the affected expense and liability accounts and likewise understated the net</p>	<p>We recommended that Management exert extra efforts to locate the missing documents so that the obligations could already be settled and to prevent possible lawsuits that the supplier/s may file against the Water District for the non-payment of liabilities. We also recommended that henceforth, Management adhere to the provisions of Section 98 of PD 1445 on the reversion of payables without valid claims and strengthen the internal control in recording of liability and</p>	<p>CY 2018 AAR</p>	<p>It was confirmed from its suppliers that the WD does not have any actual obligation. Hence, the necessary adjusting entries and reversal of accounts had been done.</p>	<p>Fully implemented.</p> <p>Appropriate adjusting/reversal entries were checked as per Journal Entry Vouchers (JEVs): JEV No. 19-06-0390, JEV No. 19-07-0538, JEV No. 19-11-0863 and JEV No. 19-09-0711.</p>

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
income of the Water District.	safekeeping of its appropriate supporting documents.			
2. The Water District did not accrue the unpaid expenses as at December 31, 2018 totaling ₱1.946 million, contrary to Section 119 of Presidential Decree No. 1445. In effect, the recorded expenses were understated and consequently overstated the Net Income for CY 2018.	We recommended that Management require the Accounting Division to draw an adjusting entry to accordingly classify the expenses in the year it was incurred so as not to overstate the current year's expenses. Also, we recommended that henceforth, Management enjoin the Accounting Division to ensure that all lawful expenditures and obligations are booked in the year they are incurred pursuant to Section 119 of PD 1445.	CY 2018 AAR	The necessary adjusting entry had been made.	Fully implemented. The adjusting entry to effect the correction was checked per JEV No. 19-06-0391.
3. The existence of several overdue and inactive accounts totaling ₱11.791 million or 44.30% of the Accounts Receivable (A/R) balance as at December 31, 2018 is an indication of poor collection efficiency which	We recommended that Management: a) exert extra effort to intensify the collections and formulate/ devise strategies to address the problem of collection/ reduction of	CY 2018 AAR	The Management continues to undertake analysis of inactive accounts based on status and availability of source documents to ensure effective prevention, management and recovery practices.	Partially implemented. On sampling basis, the Audit Team checked the demand letters that were sent to the concessionaires with overdue and inactive accounts.

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
<p>contravenes Section 2 of Presidential Decree (PD) No. 1445. Thus, depriving the Water District of additional funds that could help sustained in their operations.</p>	<p>overdue and inactive accounts; b)instruct the concerned personnel in charge in the collection of receivables to maintain record/s that will facilitate the monitoring of the action taken by Management for each overdue/ inactive account and the status of the subsequent action/s taken thereon; c)Continue the filing of appropriate legal cases against these overdue and inactive accounts to enforce collections and ensure that monitoring is likewise undertaken on the status of the case/s already filed in court.</p>			

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
4. The Water District did not secure an approval from Local Water Utilities Administration (LWUA) for the grant of "special" water rate of ₱15.00 per cubic meter for its bulk water sales to Cebu Energy Development Corporation (CEDC). This arrangement, using the latest LWUA approved water rates, is grossly disadvantageous to the government.	We recommended that Management reassess the water rate granted to the aforementioned concessionaire and thereafter secure approval from LWUA on the use of a special water rate considering that the water rate agreed upon is not in the LWUA approved water rates for Toledo City Water District.	CY 2018 AAR	The bulk water supplied to CEDC was stopped effective March 2019 because the supply of water to residential consumers was prioritized. Once the Water District can already meet the required volume, the Management will continue to negotiate with CEDC for the proposed increase of rate but will first seek approval from LWUA before implementing.	Considered not implemented. Special water rate has been granted to other concessionaire in CY 2020 without LWUA approval. Thus, the audit recommendation was not complied yet. However, the supply of bulk water to CEDC is suspended at the moment.
5. The budget allocation for Gender and Development (GAD) programs, projects and activities for CY 2018 was below the mandated 5% of the approved Corporate Operating Budget (COB) as set forth in Section 6.1 of the PCW-NEDA-DBM Joint Circular No. 2012-01. Until this	We recommended that Management: (a) Allocate the mandated amount for the GAD program, projects and activities as set forth in the PCW-NEDA-DBM Joint Circular No. 2012-01 and in the General Provisions of the	CY 2018 AAR	The allocated GAD Plan and Budget for 2019 was above 5% of the COB.	Fully implemented. The Water District's GAD allocation for 2019 was 18.44% of the total COB.

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
<p>requirement is complied with, the present condition will continue to deprive the agency personnel and TCWD clients of the benefits that may be derived from the GAD Programs.</p>	<p>General Appropriations, and</p> <p>(b) Direct the GAD Focal Person to closely monitor the implementation of the GAD Plan and Budget so that the desired benefits from the Program can be fully felt by the Water District employees and clients, in the ensuing years.</p>		<p>The management is yet to comply with the PCW-NEDA-DBM Joint Circular on the mandated amount of GAD programs and projects to be implemented in the coming years.</p>	<p>Considered not implemented.</p> <p>The utilization was only 5.73% of the total GAD Plan and Budget since the ₱25 million LWUA loan was not yet released to the Water District as at December 31, 2019. This will be used as fund source of the ₱22.49 million worth of GAD projects.</p>
<p>6. No impairment loss was recognized on certain PPE accounts although indications of impairment existed, thus, the affected PPE accounts are carried more than their recoverable amount which is contrary to Philippine Accounting Standards (PAS) 36.</p>	<p>We recommended that Management require the concerned personnel at the Accounting Division to assess the Water District's assets at every end of the reporting date and recognize the corresponding impairment loss if indications of impairment exist to ensure that PPE are carried at no more</p>	<p>CY 2017 AAR</p>	<p>The management is still waiting for the Appraisal Report to be submitted by the Disposal Committee.</p>	<p>Considered not implemented.</p> <p>This audit observation is reiterated in Part II of this Report.</p>

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
	than their recoverable amount in compliance with PAS 36.			
7. The percentage of Non-Revenue (NRW) to total water production of TCWD resulted in 39% for CY 2017 which is 95% above the maximum acceptable rate of 20% as set under the Local Water Utilities Administration (LWUA) Board Resolution No. 444, series of 2009 as amended. Thereby reducing the agency's revenue by an estimated amount of ₱33.553 million.	We recommended that Management implement additional preventive measures to reduce the NRW rate to the acceptable maximum level of 20% and accordingly prevent further revenue losses.	CY 2017 AAR CY 2016 AAR	Management continues to monitor the implementation and completion of the NRW Reduction CAPEX Projects.	Considered not implemented. Reiterated in Part II of this Report. The WD's NRW is still beyond the maximum acceptable rate of 30%.
8. Disbursements aggregating ₱1.153 million for the government's share to the Provident Fund (PF) in CY 2017 was without authority since TCWD's monetary contribution to the PF was not submitted for evaluation to the Department of	We recommended that Management secure approval or authority from DBM pertaining to TCWD's share to the Provident Fund in CY 2017 so as to preclude suspension in audit. We also recommended that	CY 2017 AAR	The Management is yet to stop permanently the giving of the government's share of Provident Fund as per management decision.	Partially implemented. This disbursement is temporarily stopped by management as per Board Resolution No. 36-2018.

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Budget and Management (DBM) as required under Section 5.3.2.2 of DBM Budget Circular No. 2008-3 dated June 30, 2008.	Management ensure that the succeeding allocations for the government's monetary contributions to the Provident Fund is submitted to the DBM for further evaluation in order to conform to the requirement of Section 5.3.2.2 of DBM Budget Circular No. 2008-003.			
9. The Water District did not develop a Water Safety Plan notwithstanding a declared national policy under the Department of Health (DOH) Administrative Order No. 2014-0027 dated September 4, 2014 and further instructed under LWUA Memorandum Circular No. 010.14 dated December 1, 2014. This requirement, if not addressed, may adversely affect the further operations of the District.	We recommended that Management, with the Board's participation, formulate its Water Safety Plan (WSP) and submit the said plan to DOH thru LWUA as directed under DOH AO No. 2014-0027 and LWUA Memorandum Circular No. 010.14.	CY 2017 AAR	The management has started the formulation of Water Safety Plan and aims to finish and submit to BOD for approval on or before May 31, 2020.	Considered not implemented. This is reiterated in Part II of this Report.

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
10. The Water District had incurred successive net losses for the two year period amounting ₱1.723 million and ₱1.982 million as reflected in its statement of Comprehensive Income for CYs 2017 and 2016 respectively, thus adversely affecting the viability of TCWD to carry out its finances and operations as required under Section 37 of Chapter IX of Presidential Decree (PD) 198.	We recommended that Management develop strategy/ action plan to lay down specific activities to be undertaken by the Water District so as to recover the losses incurred in CYs 2016 and 2017 and ultimately attain financial sustainability.	CY 2017 AAR	Management is yet to submit proposal for water rate increase to LWUA by 1 st quarter of 2020.	Considered not implemented.
11. The Water District allowed its employees to receive their salaries with net take home pay below the statutory requirement of ₱4,000.00 per month, for the period from October to December 2017, which was not in	We recommended and Management agreed to require the Accountant Designate to strictly adhere to the instructions specifically provided in the General Appropriations Act relative to the required monthly	CY 2017 AAR	Management will strictly monitor compliance with the net take home pay per GAA.	Considered not implemented. Per validation of payroll for CY 2019, there are still employees who received a net take home pay below ₱5,000 which is contrary to the requirement under the GAA 2019.

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
keeping with Section 47 of Republic Act 10924 (General Appropriations Act of 2017).	net take home pay for government employees in a particular year.			
12. Unserviceable properties with a net book value of ₱3.228 million were still not disposed as at December 31, 2016, a condition which is disadvantageous to the Water District as it may result in substantial decrease of their economic value due to further physical deterioration. On the accounting aspect, this situation would translate to considerable number of man-hours to be spent in the reclassification of the recorded items to the appropriate asset accounts to conform to Philippine Accounting Standard (PAS)	We recommended and Management agreed to conduct the immediate disposal of the unserviceable properties that are still carried in the PPE and Other Assets accounts to clean the books of balances/information that may mislead the users of the financial statements and to save man-hours for the accounting reclassification of said items to either PPE or Semi-Expendable Property.	CY 2016 AAR	The Management is still waiting for the Appraisal Report to be submitted by the Disposal Committee.	Considered not implemented. This is reiterated in Part II of this Report.

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
16 and the recent capitalization threshold for Property, Plant and Equipment (PPE).				
13. Payments for purchased water were processed without a reconciliation of the volume billed against that were taken up as expense and/or indicated in the monthly Production and Power Cost Report. This practice, if left unchecked, may result in unresolved erroneous (over/under) payments of water deliveries.	<p>We recommended that Management:</p> <ul style="list-style-type: none"> Instruct the Accounting Division to prepare a statement that will reconcile the volume of purchased water "as paid" against that reported in the monthly Production and Power Cost Report. Thereafter, effect the over/under payments in the current bills. Require all water suppliers to submit their monthly billing statements on or before the 10th day of the following month so that all 	CY 2016 AAR	Reconciliation of the volume of purchased water as against the volume billed has already been made and to effect the necessary adjustment on over/under payments in December 2019.	<p>Fully implemented.</p> <p>The Audit Team checked JEV No. 19-12-0904 and JEV No. 19-12-0907.</p> <p>Fully implemented.</p> <p>Verified the billing statements which were received by the Water District</p>

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	<p>volume variances can be resolved immediately within the time frame indicated in the Agreements and before payment of bills/closing of the books of accounts.</p>			<p>before the 10th day of the month.</p>
<p>14. The Property, Plant and Equipment (PPE) account with a balance of ₱138.719 million as at December 31, 2015 cannot be fully relied upon due to the following reasons:</p> <p>a. All of the parcels of land that are recorded in the books of accounts were still not titled in the name of the Toledo City Water District which condition renders the claimed ownership of</p>	<p>We recommended that Management fast track the titling of all the parcels of land acquired by the Water District to protect its interests as a TCT establishes absolute ownership.</p> <p>We recommended that Management seek assistance, in writing, from the Chief Accountant of Toledo City in locating the pertinent documents on the above-enumerated transferred properties in order to validate the</p>	<p>CY 2015 AAR</p> <p>QAR CYs 2019-2012</p>	<p>Management monitors compliance with the timely submission of the required documents.</p> <p>Management is still waiting for the reply from Toledo City Chief Accountant on their communication, which was sent on November 3, 2017, as basis of a management decision on the turned over properties.</p>	<p>Partially implemented.</p> <p>The Management submitted to the Audit Team the documents related to the processing of title but none has been titled under the name of TCWD as at December 31, 2019.</p> <p>Partially implemented.</p> <p>This is reiterated in Part II of this Report.</p>

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
<p>the Water District assailable and poses risk of adverse claims.</p> <p>b. Properties that were turned over by the City of Toledo at the start of the District's operation, with a total cost of ₱26.448 million, were still carried in the PPE account even if could not be located, hence overstating the PPE account balance and raises questions on the accuracy of the physical count made. Also, there is an indication that the contents of the Report of the Physical Count of PPE were not thoroughly</p>	<p>existence/ condition of said assets.</p> <p>Moreover, we recommended that Management instruct the Inventory Committee to truthfully report the actual condition/ whereabouts/ number of items seen and counted to make sure that correct data shall be indicated in the Report on the Physical Count of Property, Plant and Equipment (RPCPPE). We further recommended that the results of the physical count be reconciled with the related accounting and property records.</p>		<p>Required data are already provided in the Report of Physically Count of PPE.</p>	<p>Fully implemented.</p> <p>Per validation of the RCPPE, the properties not found are separately presented in the RCPPE as of December 31, 2019.</p>

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
reviewed/ reconciled with the related accounting and property records.				
15. Several past due accounts were settled without requiring the concessionaires to pay the penalty of ₱20.00. This omission, if left unchecked, can reduce the income from fines and penalties and may create an impression that the policy on penalty is not mandatory.	If funds are available, we recommended an enhancement of the Billing Collection System so that a routine can be provided for the automatic computation of the penalties for past due accounts.	CY 2014 AAR	Complied by the IT personnel in June 2019 and a new server was purchased and will be installed in 2020.	Fully implemented. As per verification of the Customer Ledger Card, penalties are already included in the billing.
16. The ₱73 million project which was funded by a LWUA loan granted in 2009 was still reported as 50% completed mainly because the loan released to the Water District was only about 52.43% of the approved amount, an issue which has to be revisited/	We recommended that Management revisit all the agreements and events on the ₱73.710 loan from LWUA so that new measures can be decided by top management and the Board of Directors on how to complete the project which supposed to be fully	CY 2014 AAR	Management continues to monitor the completion of DPWH Project and to submit to LWUA the Program of Work of the Capex Projects to be initially implemented for the ₱25M loan.	Partially implemented.

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resolved to ensure completion of the project and proper re-evaluation of the project accomplishment per component as this may affect the accounting treatment of the completed components, if any.	covered/ funded by the said loan.			
17. The Gender and Development (GAD) Plan and Budget for CY 2014 was not submitted to the Philippine Commission on Women for endorsement as required under Section 8.0 of the PCW-NEDA-DBM Joint Circular No. 2012-01. Thus, without PCWs review, there is no assurance that all the listed GAD activities are addressing women concerns and gender issues. Moreover, the amount allocated for	We recommended that Management request from PCW a “post-approval” of their CY 2014 GAD Plan and Budget so that the expenses incurred can be appropriately post audited.	CY 2014 AAR	- GAD Plan & Budget from CY 2015-2019 was directly submitted to LWUA as per LWUA advisory to the Local Water Districts. - To submit GAD Plan and Budget for CY 2020 to PCW as per latest advisory.	Considered fully implemented. GAD Plan and Budget for CY 2019 was submitted to LWUA on January 29, 2018.

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
GAD activities was less than the mandated 5% of the approved Corporate Operating Budget.				
18. The cash deposited for Debt Service Reserve and Operation and Maintenance Reserve is still very much below the requirement under the loan agreement with LWUA. This situation is not only an "event of default" under the loan contract but may also deprive the water district of adequate/ ready cash resources for extraordinary repairs and replacement of facilities.	We recommended that Management secure from LWUA updated statements on the required "reserves" for its outstanding loans so that TCWD can appropriately allocate/deposit the amount in the Joint Savings account maintained for the purpose.	QAR CYs 2009-2012	The Water District to prioritize the allocation of the required reserves as stipulated in the ₱25 million Financial Assistance Contract (Loan Acct. No. 4-2876).	Partially implemented. Board Resolution No. 50-2018. Has been issued on the allocation of 3% from the gross receipts as reserve fund to be maintained in the Joint Saving Account with LWUA at the PNB.
19. The agency still did not allocate a budget for Gender and Development (GAD) in their CY 2012 budget nor prepared a GAD Plan	We recommended that Management set aside at least five percent (5%) of the agency's budget as the annual allocation for GAD programs.	QAR CYs 2009-2012	Complied with the mandated annual allocation for GAD programs in CY 2019.	Fully implemented. The Water District's GAD allocation for 2019 was 18.44% of the total COB.

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<p>despite the previous audit observation on the subject matter. Until addressed, this condition deprives the water district personnel and TCWD clients of the benefits that could be derived from the program.</p>				